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THE FEASIBILITY STUDY*
ON THE PROPOSED AFRICAN MONETARY FUND
(AN UPDATE)

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* This study was first prepared by the staff of ACMS, ECA, ADB, IDEP and OAU in 1984 and updated in 1989 by the staff of ACMS, ECA and ADB in consultation with OAU staff.

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SUMMARY AND RECOMMENDATIONS

A. ECONOMIC, MONETARY AND FINANCIAL BACKGROUND

1. In an ever changing international economic and monetary environment, the countries of developing Africa experience difficulties in clearly defining a regional strategy or policy which they can rely on in dealing with monetary and financial matters. The national and subregional monetary and financial institutions may have laid the foundations for monetary and financial integration but they cannot by themselves formulate and implement a regional monetary and financial policy. The Lagos Plan of Action and the African Priority Programme for Economic Recovery (APPER) fully recognized that the creation of an African Monetary Fund is not a panacea for Africa's monetary and financial problems. However, there is a consensus, especially among those countries facing deficits on their current accounts, that a regional monetary Fund to complement existing institutions, could help alleviate their regional monetary problems.

2. Ensuring that Africa enjoys increased regional autonomy in the monetary and financial fields is, no doubt, a sine-qua-non for the efficient management of the African economies at a regional level as called for in APPER. However, recent developments in the international financial and monetary arena together with the proposed establishment of the European Common Market and Monetary Union in 1992 will certainly have far-reaching implications for and impact on African countries. Therefore, African governments should begin seriously to design the institutional machinery that could enable them to respond effectively to these developments. The rationale for an African Monetary Fund could be summed up as: the need for an institution through which regional foreign exchange resources could be pooled and thereby realising savings; the need to rationalize monetary policies at the regional level given the on going structural adjustment and transformation in the continent. Such a regional institution could also be better placed to analyse economic management and policy issues with a view to advising regional member States on the design of an indigenous framework for coordinated adjustment; to build the capacity for analysing monetary issues and policy at a regional level and devise a framework for moving towards a strong monetary zone in the continent.

B. THE OBJECTIVES, FUNCTIONS AND TECHNICAL OPERATIONS OF THE PROPOSED AFRICAN MONETARY FUND

3. In defining the objectives of the proposed institution, one should take into account the present and future monetary problems facing individual states and the region as a whole and the related development prospects. In this respect, the objectives would be broadly: balance of payments support with special reference to intra-African trade transactions, assisting member countries with stabilization and adjustment programmes. However, as a regional institution, an additional important objective would be promotion of sound monetary and financial cooperation conducive to real economic growth and monetary integration.

4. The functions may need to be phased out given the acute shortage of foreign exchange and the financial crisis facing regional member countries. These functions include: undertaking thorough country economic research studies and surveys, analyzing the balance of payments situations and assisting in the preparation of stabilization and adjustment programmes and providing training and utlimately financing facilities.

5. It is obvious that the proposed African Monetary Fund may not be able, at least initially, to perform all the functions. Hence, a gradual approach is recommended in this report.

C. ORGANIZATIONAL STRUCTURE OF THE AFRICAN MONETARY FUND

6. While initially the proposed institution may be able only to focus on strengthening the capacity for monetary policy analysis and formulation in member countries, it will, in the long run, also undertake balance of payments financing. Thus, when fully operational, the institution would have a number of organs. In this respect, two alternative structures are suggested: one for a fully-fledged and the other for a simple structure which aims at minimizing administrative costs and maximizing the use of available resources for balance of payments support.

D. THE FINANCIAL RESOURCES OF THE PROPOSED AFRICAN MONETARY FUND

7. Basically, the African Monetary Fund would largely depend on its own resources which would constitute the major source of finance as borrowing might prove extremely difficult in the initial years as has been the experience of other third World Monetary Funds. Past and current use of IMF resources by regional member countries suggests that a Fund size of $3 billion or $2 billion would have a significant impact on member countries, in the case of a fully-fledged institution. However, should a simple structure be adopted, even $1 billion could have some impact, particularly on the smaller borrowing countries.

8. In assessing the overall viability of the proposed Fund, the impact factor should be taken into account, in addition to the financial viability. It is shown in this study that the proposed Fund could be viable in both respects, provided its own resources of the order of at least $2 billion are available, if the Fund would start as a fully-fledged institution and at least $1 billion if the Fund would start on the basis of the simple structure suggested in this report.

E. LENDING CRITERIA, POLICIES AND PROCEDURES

9. Broadly, in setting out the general criteria for financing, the African Monetary Fund would take into account the prospective borrowers' specific characteristics and the economic policies it intends to pursue to correct its imbalances.

10. This implies that in order to achieve credibility and attract financial and technical assistance resources, the Fund's lending criteria, policy conditions and procedures would need to be on the conservative side.

CHAPTER I

ECONOMIC, MONETARY AND FINANCIAL BACKGROUND

I. Some Basic Issues of Concern to Africa

1. Since attaining independence, most African countries have had difficulty in introducing effective national policies to deal with their persistent monetary and financial problems. By and large, their policies have been engendered or influenced by inherited concepts and considerations, albeit that the sovereign right of Governments to manage these currencies has in principle been observed. At the global level, experience has shown that individual sovereign states in developing Africa cannot significantly influence the decisions taken in international monetary circles on such vital issues as interest rates, exchange rate adjustments and external reserves. Both the fundamental restructuring process and the wide-ranging reforms that have been initiated and pursued in most African countries, and the tireless efforts at policy reforms, appear to have generally had little effect. In this respect, several issues need to be addressed within the context of the proposed African Monetary Fund.

2. The first issue is that an African Monetary Fund is being advocated at a time when African countries are facing critical monetary and financial crisis at international, regional, sub-regional and national levels. The crisis has been triggered by the interaction of several factors which need special emphasis. The factors are: the decline in export earnings, the high interest rates on the world market; the increasing balance of payments deficits; the fluctuations in the exchange rate of national currencies vis-a-vis major world currencies; the decline in resources inflows into Africa, especially ODA concessional resources; the decline in investment, both in the private and public sectors; the flight of capital; the very low domestic savings rates and overall domestic policy shortcomings. In addition, the external debt obligations of African countries have made it difficult for them to effectively manage their resources.

3. Following the implementation of IMF and World Bank structural adjustment programmes, total regional GDP only grew by 1.3 per cent in 1988 with the number of countries with positive growth rates declining from 27 in 1985 to only 18 in 1988. Given this picture of recent economic performance in Africa[1/] and the lack of positive or sustained results, it is imperative for Africa to adopt reforms that will bring to an end the current dichotomy between the short-term adjustment and the requirements of long-term restructuring in Africa.

4. Furthermore, in the absence of drastic policy changes, it is estimated that Africa's economic situation will be worse at the end of this century than it is now[2/]

1/ ECA, Economic Report on Africa, 1989

2/ ECA, Beyond Recovery, ECA Revised Perspectives of Africa's Development, 1988-2008, E/ECA/CM.14/31.

5. The difficulties in achieving monetary and financial integration in Africa are aggravated by the fact that the African countries' monetary institutions are designed basically to serve external considerations and requirements. They also have varied degrees of sophistication in monetary and financial policies. Most individual African countries are not viable in economic terms - Gross Domestic Product (GDP) is small, national money markets are limited or non-existent, the degree of monetization is low, average income levels are low and production capacity is underutilized, most have large populations dependent on subsistence agriculture in which money plays a marginal role. African economies suffer from structural weakness in almost all productive and service sectors; African peasant agriculture is characterized by low levels of technology, low productivity and low output. Growth in the agricultural sector, especially in food production, is slow, and this in turn makes monetary policies difficult to implement.3/

6. The second issue is that Africa remains the least developed continent with the lowest Gross Domestic Product and per capita income levels. The over-dependence of African economies on exports of basic raw materials and minerals renders them highly susceptible to external developments. Internal policies have resulted in low levels of income and savings and have led a large portion of resources to be transferred for investment abroad. Post-independence efforts to accelerate economic and social development, including diversification of production and trade and the widening of domestic markets to reduce dependency and peripheralism, have led to further dependence on external sources of funds.

7. The least developed countries are those that are most adversely affected by the monetary and financial crisis. The ever increasing number of African countries classified as least developed is evidence of the severity of the economic and social crisis affecting the region. At the end of 1988, 28 African countries were classified as LDCs, up from 16 at the beginning of the 1970s4/. As a consequence of Africa's monetary underdevelopment, the economies of African countries are very vulnerable to the effects of adverse developments abroad. The impact of the global monetary system on the African region has been to cause constant decreases in real incomes, increased unemployment and, rising inflation.

3/ Partly as a result of this and partly as a result of the serious drought, it was estimated that at the end of 1983 no less than 150 million people were threatened by hunger and malnutrition.

4/ ECA, Review of economic and social conditions in African Least Developed Countries (1980-1988) and the prospects for 1989 and 1990, E/ECA/LDCs 9/Exp. 8/2.

8. The third issue is that the monetary disequilibrium which affected African economies during the 1970s has continued unabated into the 1980s. Sluggish economic performance, high inflation, high unemployment, chronic balance-of-payments deficits and burdensome debt service obligations have shown tendencies of becoming permanent hindrances to economic and social development in the African region. Economic growth rates averaged 4 per cent in the period 1974-1976. Since 1980, the continent has been deteriorating steadily in all spheres of activity, as it is shown in the ECA Annual surveys of Economic and Social Conditions in Africa 5/. Indeed, the picture of recent economic performance in Africa, as revealed also by the outcome of the mid-term review and appraisal of the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 (UN-PAAERD), leaves much to be desired. Total regional GDP grew only by 2.3 per cent in 1988 compared to a mere 1.3 per cent in 1987, with the number of countries registering positive growth rates in excess of 3 per cent declining from 27 in 1985 to 25 in 1986·21 in 1987, and to only 18 in 1988. And the prospects for GDP growth are no better in 1989, even if the favourable weather conditions of 1988 do obtain in 1989 unless, of course, the external economic environment becomes less hostile. As a result of the slow growth in GDP, relative to the population growth rate of 3 per cent in the region, per capita GDP, declined by about 2.7 per cent in 1987 and 0.7 per cent in 1988. Throughout the decade, per capita output has declined consistently - the only continent where this has happened.

9. Available data confirm that the widening of Africa's trade deficit resulted in a significant worsening of the current account in 1988. On f.o.b. basis, the trade deficit [illegible] billion, in 1986 [illegible] to a surplus of 4.1 in 1988. With a deficit of $16.7 billion on the service account and private transfers remaining practically unchanged, the current account deficit excluding official transfers rose to $13.1 billion in 1988, from $7.1 billion in 1985. If official transfers are included, the deficit on the current account was about $10.2 billion in 1988, as compared with $7.2 billion in 1987. In GDP terms, the deficit thus reached 3.5 per cent of GDP in 1988, from only 2.5 per cent in 1987.

10. For the past 25 years or so, growth rates in most developing African countries have steadily declined. Export earnings have gradually decreased, import bills have increased 6/, fiscal and monetary policies have not adequately addressed the problems of financing growth; capital accumulation has not taken place at a pace commensurate with the countries' immense development needs; there have been excessive transfers of profit and capital from Africa; and the lack of a regional monetary institution to co-ordinate the monetary and financial activities of member States vis-a-vis external institutions has also weakened Africa's position. The ability of the African countries to generate resources has been drastically reduced, rendering them increasingly dependent on external borrowing to finance their current development programmes.

5/ See ECA, Survey of Economic and Social Conditions in Africa, various years 1980-1988, - See also Economic Report, op cit.

6/ See also United Nations, Department of International Economic and Social Affairs, Commodity Trade and Development, (E/2518), page 16.

Table 1

Developing Africa

Economic Indicators, 1986-1988

	1986	1987	1988
Real growth (%)	1.8	0.7	2.3
Domestic demand growth (%)	-1.1	-1.2	-1.5
Inflation	12.5	15.7	21.3
Commodity prices (100 = 1980)	51.5	62.2	54.2
Oil price ($/bd)	14.4	18.4	14.4
External debt ($ billion)	190.0	220.3	230.0
Current account balance ($ billion)	-13.7	-11.2	-13.1

Source: ECA secretariat.

11. As a result, the African economies have continued to experience serious monetary problems, aggravated by the economic and social crisis which began to bite deep at the turn of the 1980s and has been exacerbated both by unprecedented drought and other natural disasters in many African countries and by the unfavourable international economic environment. Therefore the thrust of new policies in African development is to effect a structural transformation of the economies of African countries with a view to reducing their monetary and economic dependence and vulnerability to adverse external factors and simultaneously promoting economic integration at the continental level.

12. The fourth issue relates to the social and economic crisis which has forced a number of them to embark on stabilization and structural adjustment programmes with the encouragement and support of the two Bretton Woods institutions. Thus, during the period 1980-1988, as many as thirty-three African countries had put in place stabilization programmes under the Stand-by Arrangement Facility of the IMF while fifteen countries had structural adjustment programmes under the Structural Adjustment Loans of the World Bank. The impact of SAPs on the well being of the different sections of African societies has been the subject of considerable research as attested by the proceedings of the international conference on the Human Dimension of Africa's Economic Recovery and Development held in Khartoum in 1988, as well as studies carried out by the IMF and the

World Bank, and by ILO and UNICEF 7/. All studies have acknowledged the seriousness of the impact of structural adjustment on the human conditions in Africa. In this respect, the establishment of an African Monetary Fund may provide Africa with an alternative framework which would enable member countries to adjust more effectively while at the same time minimizing social costs of adjustment and transformation 8/. As an African institution, the African Monetary Fund would be more sensitive to the sentiments of African countries in the implementation of their programmes. Such a fund could also be expected to have the capacity of designing a broad adjustment framework for all African countries irrespective of the differences in their economic systems and approaches to development.

13. To promote socio-economic adjustment with transformation in the African countries and to bring about monetary co-operation and the integration of African economies, it is of paramount importance that regional development strategies be clearly articulated. Africa has already articulated an industrial development strategy, an agricultural strategy, and a trade strategy within the framework of the establishment of an African Common Market. An energy strategy and a strategy for the exploitation of natural resources are also now being defined. The point to stress is that in order to ensure balanced growth in the African economies, all aspects, including monetary and financial, of social and economic development need to be integrated.

14. The contribution of the monetary and financial sector to economic development and integration in Africa will be enhanced by well thought out regional monetary and financial strategies and policies. This is why the Lagos Plan of Action calls for effective mechanisms to ensure that a sound regional financial and monetary institution could be established to deal with the problems caused by a multiplicity of inconvertible currencies, the lack of effective money and capital markets, mounting external debts and seriously depleted foreign reserves. By strengthening intra-African monetary and financial co-operation as well as payments and clearing arrangements, it will be possible to reduce Africa's external financial dependence and vulnerability and increase the capacity of its countries to undertake adjustment with transformation.

7/ ILO, International Review, Vol. 127, No. 6, 1988.

8/ ECA, African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (APF-SAP), E/ECA/CM.15/6/Rev.3

Giovanni Andrea Cornia, Adjustment with a Human Face, Oxford, Clarendon Press, 1981.

Mahbub Ul Haq, Richard Jolly, Paul Streeten and Khadija Haq (eds.), The Political Economy of Human Development, New York, Praeger, 1981.

Mahbub Ul Haq & Nicholas Hopkins, "The Social Cost of Adjustment", in Finance & Development, Washington DC, Vol. 24, No.2 June 1987.

The Khartoum Declaration, "International Conference on the Human Dimension of Africa's Economic Recovery and Development", Khartoum, Sudan, 5-9 March 1988.

15. In particular, the multiplicity of African currencies needs to be addressed as most currencies are not readily acceptable across national frontiers except where parallel markets operate in respect of certain currencies 9/. There is at present no regional framework within which African countries could work to harmonize their currency and exchange control practices and remove monetary obstacles to the expansion of intra-African trade. The creation of an African Monetary Fund, which could facilitate the movement towards intra-currency convertibility, monetary integration and improved monetary management, would contribute towards economic development throughout the African continent.

16. The fifth issue is that in the absence of African monetary and financial cooperation and integration and bearing in mind the establishment of a single European Monetary System following the creation of the European common market in 1992, what will be Africa's response to this development? What will be the fate of the national currencies that are currently linked with Europe through a system of «pegging»? What will be the mechanism at the disposal of African countries to deal with the impacts of the realignment of new parity ratios that will result from exchange rate adjustments that will inevitably result from the regrouping of world currencies after 1992? 10/ These are some of the questions that the proposed African Monetary Fund could help to clarify. There is the need for the domestic African monetary and financial systems to be remodelled and re-grouped to enable the countries to effectively respond to the international events that may adversely affect their development prospects.

17. For instance, greater monetary stability in the ACP countries with the fixed parities, (such as the African Franc Zone area) can give investors a major advantage of the guarantee that the capital invested in these countries will maintain its value. On the other hand, exchange rate fluctuations in Europe and indeed destabilization of the European Monetary System, as a result of excessive speculation, cannot fail to have an adverse impact on ACP economies, such as curbing investment, fuelling inflation and reducing export revenues.

II. The Management of African Monetary and Financial Policy

18. The issues identified in the preceding section reflect the tremendous problems experienced by many African countries in managing their domestic monetary and financial situations. Such problems have arisen especially in their efforts

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9/ For some discussion of the issue of national currencies in an international context see Robert Triffin, The World Money Maze: National Currencies in International Payments, (Yale University Press, 1966).

10/ ECA, Issues of major importance to African countries to be considered in the negotiation for a successor agreement to the Lome III Convention, E/ECA/TRADE/88/15.

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to deal with chronic balance-of-payments deficits and mounting external debts. Most African countries are not equipped to deal with the sudden changes they are experiencing in their monetary situations, especially in the wake of the current and unprecedented high interest rates. Their reactions can be described as ad hoc, relying on stop-gaps and palliatives amid a scramble for external resources to cope with the problem.

19. These problems stem from domestic policies which do not encourage savings and investment. For instance, nominal interest rates have long been too low, ranging from 5 to 10 per cent, while inflation has stood at 20 per cent or more. The result has been negative real interest rates and savings have not been flowing to the banks or other financial institutions. This has deprived the financial system of a major source of domestic investment funds. Low nominal interest rates have also prevented commercial banks and other financial institutions from providing funds for either agricultural investment or working capital, because the high risks could not be covered at the prevailing rates. Therefore, most African countries are suffering from a prolonged «financial repression»

20. Successful monetary policy requires a highly monetized economy and highly developed capital and money markets. The situation in Africa is that Central banks' use of monetary policy instruments, such as changes in required reserves, interest rates or open market operations, does not always bring about the desired changes in the quantity of money or other credit conditions because of the shuffling of port folios by asset holders, especially by the transnational banking corporations. 11/ Therefore, even the wherewithal for an active monetary stability does not exist. Economies are not wholly monetized; there is a large subsistence sector on which interest rates exert little influence, and organized capital and money markets that do exist are not integrated with the rest of the economy. These features severely restrict the efficacy of monetary policy in developing Africa.

11/ For issues on transnational corporations, see UNCTC, Transnational Corporations in World Development: A Re-Examination (E/C.10/38) March 1978 and ECA, Transnational Corporations in Africa: Some Major Issues (E/ECA/UNCTC/21), See also Transnational Corporations in World Development, Trends and Prospects, ST/CTC/89, New York, 1988.

21. Most African countries have adopted a series of measures to deal with domestic monetary and financial pressures. First they tried to trim government expenditure to match available resources, but this quickly led to drastic cuts in imports of goods and equipment needed to sustain existing levels of growth. The trimming also resulted in increased unemployment and social problems, since welfare expenditure had in some cases to be drastically reduced, and schemes for economic reconstruction or rehabilitation had to be postponed or abondoned. The contraction of government expenditure, therefore, was only partially successful.

22. Therefore, as seen in Table 2, total public expenditure increased during the period 1985-1988. The second measure was to look for external resources. This was vigorously pursued but external resources were difficult to mobilize because of the international recession, the domestic economic situation in most African countries and fears by private creditors of possible default. Because the first two measures could not, for both political and socio-economic reasons, be adopted by most Governments, some of them opted for domestic credit to cover the deficits through increased money supply. Where there is a paucity of financial institutions, particularly non-bank ones, the result has been high rates of inflation which have further eroded the capacity to generate domestic savings.

Table 2

Major Fiscal Indicators of Developing Africa

Weighted Average

(percentages)

	1985	1986	1987	1988
Current revenue/GDP	25.4	24.3	28.0	25.0
Proportion of current revenue contributed by:				
Indirect taxes	40.4	43.3	44.2	44.9
Taxes on international trade	25.8	24.0	22.7	32.7
Current expenditure/GDP	20.8	21.9	21.8	21.4
Capital expenditure/GDP	12.7	13.0	12.8	10.9
Total expenditure/GDP	33.8	35.0	34.6	29.8
Overall deficit/GDP	8.0	9.2	6.8	5.3

Sources: ECA, Survey of Economic and Social Conditions in Africa, 1985-1986, 1986-1987, New York, 1988.

III. THE IMPACT OF EXTERNAL FACTORS ON MONEY AND FINANCE IN AFRICA

A. Historical perspectives

23. Imbalances in the current accounts of African countries are not new phenomena but date back to the early crisis when they were engendered mainly by the world energy crisis. During the 1950s and a large part of the 1960s most African countries had surpluses in their trade balances. At the same time, African industrialization was at its early stages, income distribution was skewed, and the bulk of the population was living at subsistence levels. Risisng incomes and accelerating industrialization during the 1960s spurred growth in imports while international inflation caused a sharp rise in imports prices. The world-wide recession of 1974-1975 led to a decline in both the volume and prices of Africa's primary exports, and the upshot was a substantial worsening in African countries terms of trade (with the exception of the oil-exporting countries), accentuated by the second oil price hike (1979-80) and international inflation at double-digit levels 12/.

24. It is estimated that between 1973 and 1980 the non-oil exporting countries' terms of trade declined by 30 per cent 13/. Adjustment policies followed by the developed countries shifted the deficits in their external balances to the developing countries. The reaction of the African non-oil countries was for the most part ineffective. Risisng import prices were translated into domestic price rises which reduced real incomes and hence demand. Increased subsidies caused widening deficits, and national savings were correspondingly depleted. Deficit financing became the mechanisms for bridging the imbalance (the savings-investment gap).

25. External trade is made acutely difficult for the non-oil exporting countries of Africa by their balance-of payments deficits. Difficulties in financing their deficits have forced them to curtail imports and investment, and the result has been a major decline in real output. For the most part their real output has been growing slower than their populations, and in many cases has actually fallen below previous levels.

12/ See also Adebayo Adedeji, «The Deepening International Economic Crisis and its implications for Africa», statement made at the formal opening of the ECA Conference of Ministers, Tripoli, Libyan Arab Jamahiriya, 27 April 1982.

13/ See A. W. Clausen (World Bank President) «Let's Not Panic About the Third World Debts» in Harvard Business Review, November/December 1983, No. 6.

Table 3

Net Resource Flows to Sub-Saharan Africa

1980, 1985-1987

(Billions of Dollars)

	1980	1985	1986	1987
Official Development Finance (ODF)	10.4	11.9	14.9	18.2
Official development assistance	8.7	10.6	12.9	14.6
Bilateral	6.2	7.3	8.9	..
Multilateral	2.5	3.3	4.0	..
Other ODF	1.7	1.3	2.0	3.6
Export credits	1.9	0.8	0.4	0.0
Private flows	2.8	2.2	2.2	2.3
Total flows	15.1	14.9	17.5	20.5
Memorandum item:				
Total flows at 1986 prices and exchange rates	17.3	18.3	17.5	17.9

Source: OECD, Financing and External Debt of Developing Countries, 1987 Survey, (Paris, 1988).

26. Available data on resource flows confirm that capital inflows have stagnated in real terms. As shown in Table 3, these flows amounted to $20.5 billion in 1987, 17.1 per cent more than in 1986. In real terms (in 1986 prices), the rise was only 2.3 per cent and to 1985, there was a fall of 2.2 per cent. An examination of the structure of resource flows, shows that export credits had fallen drastically to a negligible level from 1.9 billion in 1980, and that private flows in 1987 were lower than they were in 1980. It is mainly official development assistance which has increased, to represent 88.8 per cent of total flows in 1987, compared with 69 per cent in 1980. Such a development, though it means that resources are obtained on less onerous terms by Sub-Saharan African countries, implies that significant investment resources are no longer forthcoming, since a major share of official flows are not directly used for investment, while the reverse is true for private flows.

27. Recent figures from the 1988 OECD report on development cooperation 14/ (which are lower than those quoted in table 2 from an earlier publication) show that total net ODA flows to African countries, including North African ones, which had reached $10 billion, had fallen to $13.8 billion in 1987 (at 1986 prices and exchange rates). This fact is a further indication of the contraction of resource flows to African countries.

B. Africa's External Indebtedness and Resource Management 15/

28. Africa's external debt position worsened in 1988 and is projected to become even more critical in 1989 and beyond (see Table 4). The stock of external debt outstanding has risen sharply since 1980, to reach about $230 billion in 1988. This figure amounts to 81.1 per cent of total regional GDP and accounts for about 314.2 per cent of exports of goods and services. Indeed, for some countries, such as the Gambia, Guinea Bissau, Mozambique, Somalia and Sudan, the latter ratio currently exceeds 1000 per cent. In the three years between 1985 and 1988, the debt stock increased by about $55.6 billion, amounting to a full year's earnings from exports.

29. Despite repeated rescheduling and increasing difficulties in obtaining new loans, the volume of debt increased to about $230 billion in 1988 alone. This increase essentially reflects valuation effects associated with the continuing decline in the external value of the US dollar, the accumulation of arrears and the capitalization of interest payments due, as new lending increased only marginally. The continuing rise in the volume of debt and the debt ratio underscores the excessive burden imposed on African economies and their vulnerability to adverse external developments. The proper understanding of the African debt crisis, therefore, requires that it be placed within the framework of the concomitant adverse developments in commodity prices and resource flows and the on-going efforts of adjustment.

14/ Development Co-operation, 1988 Report, DAC, OECD, Paris, 1988.

15/ ECA, African Debt Problem: measurement, management and development implications, L/ECA/88D.5/3.

ECA, Alternative systems of external resources management including management of the external Debt, E/ECA/TPADE/88/18.

ECA, Economic Report on Africa, 1989 op. cit.

See also OAU, African Common Position on Africa's External Debt

In the same context, one would like to consult AFTEK and UN-PAAERD.

Table 4

Developing Africa: External Debt and Debt Service

1985 - 1988

	1985	1986	1987	1988*
			Billions of Dollars	
Debt	174.4	190.0	220.3	230.0
of which				
North Africa	78.9	91.9	100.5	104.2
Sub-Saharan Africa	95.5	98.1	119.8	125.8
Debt Service	24.2	26.4	26.1	29.2
of which				
North Africa	12.3	12.7	12.0	12.4
Sub-Saharan Africa	12.0	13.7	14.1	16.9
Debt Burden			(in percentages)	
Debt/GDP	52.6	62.2	71.0	91.1
Debt/Exports	205.2	289.6	308.5	314.2
Debt Service/Export	28.6	40.2	36.3	40.0
of which				
North Africa	29.0	49.9	39.2	40.1
Sub-Saharan Africa	27.3	36.2	34.6	40.9

Sources: OECD, Financing and External Debt of Developing Countries, 1986 Survey (Paris, 1987);
OECD, External Debt Statistics (Paris, 1988);
IMF, World Economic Outlook (October, 1988);
World Bank World Debt Tables, 1988-1989 Edition
African Economic Digest, Various Issues and
ECA Secretariat

*Preliminary estimates

30. The debt burden, in terms of scheduled or actual debt service obligations, has also increased. Many countries are presently suffering the double squeeze of rising debt service obligations and collapsing export prices. Scheduled debt service is estimated to have risen from $26.1 billion in 1987 to $29.3 billion in 1988, amounting to about 40 per cent of the region's export earnings. Rising debt service obligations coincided with the erosion of the region's capacity to service its debt, as the prices of and demand for its exports continued to weaken and its terms of trade deteriorated. Recent reschedulings and the accumulation of arrears by a growing number of countries has, however, kept the actual debt service ratio well below its scheduled levels. This gap between obligations and actual capacity to service debts, reflected in the rising volume of arrears, is putting further strain on the recovery efforts. Arrears owed to multilateral institutions (i.e. the IMF and the World Bank) and to the commercial banks are blocking new commitments and, eventually, disbursements from these sources and, as such, constitute major impediments for African countries.

31. A number of measures and initiatives have been taken or proposed recently to alleviate the debt burden. Although they provide temporary relief, these measures have merely postponed payments and have led to the capitalization of interest payments, which will eventually result in a further build-up of the debt stock.

32. The more recent initiatives on debt from both creditor and debtor countries reflect the growing concern over the detrimental impact of the present debt crisis. Thus, the Toronto Communique of June 1988 of the major industrialized countries was significant for its recognition of the generalized nature of the debt problem of the poor nations, particularly in Africa and because of its encouragement of increased flexibility in debt rescheduling arrangements and its call for enhanced levels of concessionary support. This led to the adoption of a menu of options for debt rescheduling through the Paris Club including the cancellation of up to one-third of the debt service during a consolidation period and the restructuring of the remainder at market rates over a long period and reduction of interest rates. In this context, the Brady and the French initiatives could be mentioned. African countries on their part have continued to press on for the adoption of a regional approach to the debt issue through the holding of an international conference on African debt as their debt problems are of a common nature. In this context, a regional monetary institution, would, as is the case with the IMF, be in a better position to take the lead in dealing with the African debt issue.

33. Another critical aspect of the financial crisis is the management of resources. The first is how to mobilize resources at the lowest possible cost in order to promote development. The second is how to devise an effective system of resource allocation towards competitive needs, including external debt servicing, so as to ensure that economic development, especially that for the rural poor, is not jeopardized. The third aspect of the problem relates to effective utilization of these resources, particularly in income-generating activities, to ensure that surpluses are generated to support a higher rate of growth as well as to service external debt obligations. These problems have been aggravated by the lack of suitable institutions at the national level that can engender increased rate of domestic savings and capital formation as well as more rational monetary, financial and savings policies.

34. In order to ensure that these problems are adequately dealt with, African countries are called upon to adopt a more dynamic and imaginative policy for resource management that will encompass direct and indirect taxation; public borrowing policies, including prudent deficit financing; new policies for recurrent expenditure; effective measures for mobilization of household and corporate savings; increased efficient use of human resources and skills available, and, appropriate measures to stop financial leakages and flight of capital from Africa. All of these constitute an integral part of the package of measures necessary for adjustment with transformation.

C. Balance-of-Payments Problems

35. The previous sections indicated that developments in the monetary and financial sector inside and outside Africa were largely responsible for the balance-of-payments problems and external indebtedness of African countries individually and collectively. Table 5 shows the balance of merchandise trade and balance-of-payments of African countries between 1985 and 1988. A matter of real concern to the African countries is that while the deficits in their balance of payments not only persist but increase, no one yet appears to have found an effective solution to the problem.

Table 5
Balance of Payments of Developing Africa
(Billions of US dollars)

	1985	1986	1987	1988
Exports f.o.b	64.0	49.8	57.3	65.6
Imports f.o.b	56.1	52.2	53.9	62.7
Trade balance	5.9	-2.4	3.4	4.1
Services and private transfers (net)	-13.0	-11.3	-14.6	-17.2
Current account balance	-7.1	-13.7	-11.2	-13.1

Source: ECA, Surveys of Economic and Social conditions in Africa, 1985-1986, 1986-1987 New York, 1988

36. The traditional solution is that offered by the International Monetary Fund, which calls for devaluation of the national currencies and reduction in public expenditure 16/. There are, however, strong views in some African quarters, supported by independent empirical studies, that devaluation alone does not always improve a country's balance-of-payments. This analysis will be of relevance in the policies of the proposed African Monetary Fund. For instance, it is argued that in the context of a predominantly primary commodity export economy, devaluation alone may not result in increased export performance and earnings. It may even induce increased outflow of resources, thereby making the payments situation worse 17/. The position is complicated by the fact that

16/ See Paul Host-Madsen, Balance of Payments - Its Meaning and Uses (International Monetary Fund, Washington D.C., 1957).

17/ See for instance, Richard N. Cooper, "Currency Devaluation in Developing Countries" in Gustav Ranis (Ed.), Government and Economic Development, New Haven, Yale University Press, 1971, pp. 478 et seq. and Louka T. Katcheli, "Devaluation: A Critical Appraisal of the IMF Policy Prescriptions" in American Economic Review, Vol. 79, No. 2, May 1973.

See also: Mahbub Ul Karim, "Devaluation in Developing Countries: The Difficult Choices," in Finance and Development, Washington D.C. Vol. 20, No. 1 March 1983 pp. 14-17.

- Kaldor Nicholas, "Devaluation and Adjustment in Developing countries" in Finance and Development, Washington DC. Vol. No. 2, June 1983, pp. 35-37.

- B. Balassa, Adjustment to External Checks in Developing Economies, IBRD, Washington D.C. 1984

- Illustration donnee aux tableaux III, IV.....

the African currencies, as mentioned above, are "pegged" to a variety of major currencies. Moreover, the curtailment of public expenditure when a government is hoping to reorganize its economic activities so as to improve the export performance can pose serious political problems.

37. Between 1960 and 1973, the rate of inflation (as measured by the consumer price index) in the African countries averaged an acceptable level of 5 per cent. By 1974, however, the continental index had risen to a level of 17 per cent owing to the four-fold increase in the price of oil the previous year, the onset of stagflation in the OECD countries and the unfavourable economic conditions. All these developments had detrimental effects on the balance of payments 18/. During the period 1980-1983 inflation went up to about 20 per cent annually. As is shown in Table 6 below, these developments in the price structure are shown by movements of the weighted and simple averages as well as the median values for the years 1984 to 1988.

Table 6

Movement in the Aggregate Consumer Price Index Number for Developing Africa
(Annual Changes in Per cent)

	1982	1983	1984	1985	1986	1987	1988
Weighted average	13.1	18.9	20.4	13.4	14.9	16.2	12.7
Median estimate	12.7	10.9	11.5	10.5	9.1	8.4	7.0

Source: IMF, World Economic Outlook. April 1988, Washington, D.C.

18/ See ECA, Survey of Economic and Social Conditions in Africa 1980 and IMF, Supplement to Price Statistics (Washington D.C. 1981 and 1982).

38. Pressures on African prices were of both external and internal origin. Externally, the prices of Africa's imports were increasing owing to inflation in the developed countries. The high price of imported goods contributed to a decrease in the quantity of imports, thereby intensifying domestic shortfalls and the supply/demand dislocations. Internally, unfavourable climatic conditions and poor economic performances in general resulted in low output and productivity. Severe and persistent drought affected the economies of 24 African countries to the extent of making them dependent on food-aid 19/. High prices for imported capital goods, semi-finished products and raw materials for manufacturing industry (including oil) put the budgets of most African countries under severe strain in the early 1970s. By the early 1980s, the situation was fast deteriorating.

39. When African Governments face deficits, central banks have generally been called upon to make good the differences between expenditure and revenue. It is estimated that no less than 80 per cent of the deficits of African countries have been financed by credits extended by central banks. The effect of such financing has been to increase the monetary base and consequently the money supply, immediately after the first oil price hike the rate of increase in the aggregate money supply for Africa shot up from 12 per cent in 1972 to 23 per cent in 1984 20/.

40. It needs to be stressed that the propensity to expand money supply differed between oil-exporting and non-oil exporting African countries. In the case of the former, the upsurge in money supply was due mainly to the massive increase in net acquisitions of foreign assets, while the latter's money supply increased through money creation for financing their current deficit.

IV. African Monetary and Financial Integration

41. During the past two decades or so, considerable progress has been made in establishing monetary and financial institutions to deal with Africa's socio-economic problems. Regional development financing institutions such as the African Development Bank have been created; so have sub-regional institutions such as the East African Development Bank, the Trade and Development Bank for Eastern and Southern African States, the ECOWAS Fund, and the Arab Bank for Economic Development in Africa (BADEA). National

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19. For details of the countries affected by the drought see, ECA, Special Memorandum by the ECA Conference of Ministers on Africa's Economic and Social Crisis (E/ECA/CM.10/37/Rev.3), pp. 5-9 and Appendix II, p.59.

20/ See IMF, International Financial Statistics, May 1978.

parastatal institutions such as agricultural and industrial development banks or corporations have come into existence to respond to new financial needs. There are also such important institutions as the African Centre for Monetary Studies and the Association of African Central Banks, and sub-regional payments and clearing arrangements such as the West African Clearing House, the Central African Clearing House and the Clearing House of the Preferential Trade Area of Eastern and Southern African States. Studies are underway to establish the North African Clearing House.

42. Despite these positive developments, the African countries remain heavily dependent on external institutions in the monetary and financial fields. Africa's banking and credit systems evolved during the colonial period, and post-independence monetary and financial institutions have largely followed the patterns of the pre-independence era 21/. In the former British colonies, currencies were issued by Currency Boards and as such Britain controlled the monetary and financial policies of its possessions. The arrangements in the Franc zone had similar purposes and objectives. Loans and credits were geared towards external interests, not domestic growth. It is true that these institutions have been modified by the post-independence Governments and have played their part in mobilizing development finance. They have not in themselves resulted, however, in the establishment of a regional monetary system through monetary and financial integration.

43. As underlined earlier, the role of indigenous financial institutions in the mobilization and management of development finance is really marginal compared to the situation in developed countries and other developing regions of the world where such institutions are fully developed. However, this role is increasingly being recognized as vital to the efforts towards economic recovery and development in Africa. By fostering financial integration accompanied by significant structural changes in financial markets, efficiency will be achieved by lowering intermediation costs, increasing the ability to hedge financial risks associated with currencies, interest rates and price volatility and providing access to new sources of savings.

V. The rationale for the Establishment of an African Monetary Fund

44. The basic rationale for the establishment of an African Monetary Fund can be summed up in terms of its expected impact in filling gaps in Africa's socio-economic development process through its monetary and financial operations.

21/ See also, Tamas Szentes. The political economy of underdevelopment, Budapest, pp. 177 and seq.

Further, for both political and economic reasons, the establishment of an African Monetary Fund would be of fundamental and historical significance in the attainment of collective self-reliance.

45. The creation of such a fund could offer advantages or play a role which the national or sub-regional monetary institutions cannot. These include: (a) resolution of African monetary and financial problems in an African context; 22/ (b) the possibility of moving towards a common unit of account, especially for reducing intra-African transactions costs; (c) availability of new sources of credit and capital; (d) the opportunity to introduce a framework for African monetary and exchange rate policy and African-oriented adjustment programmes; (e) provision of technical support to national and sub-regional monetary institutions; (f) an opportunity for African people to build the capacity for economic management and monetary policy analysis at the regional, as opposed to national, level; and (g) the opportunity for African countries to move towards the goal of pooling international reserves, thus realizing savings, and ultimately towards a single monetary zone with a single currency.

46. It is important to stress that an African Monetary Fund need not duplicate or even compete with existing subregional, regional or international monetary and financial institutions in objectives, policies or operations, it could, however, provide a truly African focus on monetary and financial issues and enable African countries to jointly respond more effectively to international developments. 23/ If its activities were to be fully co-ordinated with those of similar institutions, its approaches to such critical issues as quotas, convertibility of currencies, balance-of-payments support, lending criteria, compensatory financing facilities, special drawing rights, supplementary financing facilities and credit tranche drawings would have to be established in the context of the special problems facing African countries, and be geared to the promotion of overall growth and development in the African economies.

47. Finally, it must be stressed that, although the Heads of State and Government of the OAU decided that an African Monetary Fund should be established (L.P.A. paragraph 254b) they also instructed that:

22/ The need for an institution of this type has also been felt in other developing regions of the world and this has resulted in creation of the Arab Monetary Fund, the Andean Reserve Fund currently being transformed into the Latino American Reserve Fund, the ASEAN Swap Agreement, the Central American Monetary Stabilization Fund, and the Latin American Free Trade Association's Financial Assistance Agreement.

23/ See also Report of the First Meeting of the Intergovernmental Group of Experts on the establishment of an African Monetary Fund (E/ECA/ITF/IAT/WP.6/Rev.1), October 1982. This meeting discussed the broad objective of the proposed African Monetary Fund.

> "...Steps must be taken to ensure that new multinational institutions are established only after careful consideration of their necessity, objectives and activities and where there is clear indication that they will obtain the political as well as the financial support of member States." (L.P.A., paragraph 264) and that
>
> "...No new multinational institutions should be created unless their creation has been thoroughly examined and after the possibilities offered by national institutions and existing multinational ones have first been fully considered." (L.P.A., paragraph 264 iii).

Following the above guidelines, the next chapter of this study will examine the likely objectives, functions and technical operations of the proposed Fund, taking into account those performed by existing institutions.

CHAPTER II

THE OBJECTIVES, FUNCTIONS AND TECHNICAL OPERATIONS OF THE PROPOSED AFRICAN MONETARY FUND

I. The objectives of the African Monetary Fund

28. The African Monetary Fund should be able to assist in enhancing the socio-economic development of its member States through the promotion of monetary and financial co-operation among them. However, an over-riding concern of the AMF would be to promote effective stabilization policies in the monetary, financial and trade areas with the aim of strengthening the medium-term economic performance and paving the way for long-term growth. These objectives therefore take into account the present and future monetary and financial problems facing individual states and the region as a whole, and the development prospects with particular emphasis in the fields of money and finance. However, it will have to decide which of these objectives may be realizable in the short run. In this regard, the level of capitalization of the African Monetary Fund will have a decisive role in relation to the attainability of particular objectives. The following would be the itemized objectives of the African Monetary Fund.

Objective 1 To assist member countries formulate sound monetary and financial policies which are conducive to sustained social and economic growth of the member States.

29. It is generally believed that the constraints to growth arise predominantly from stagnation in international trade. However, while not underestimating the importance of this factor, African countries' perception of the constraints to their growth is that these arise also from structural deficiencies and the insufficiency of incentives to stimulate indigenous development. Therefore, a primary objective of the African Monetary Fund should be to promote the adoption of appropriate indigenous policies and the full internalization of the development process. The realization of this objective will be over a relatively longer term.

Objective 2 To assist member States in creating an enabling macroeconomic environment which fosters viable and efficient financial and monetary systems

30. The harmonization of monetary and banking and of exchange control legislations and practices will stimulate the establishment of regional money and capital markets. These in turn will act as an efficient conduit for the transmission of monetary and financial policies to real activity even at the national level. Such markets will also facilitate the mobilization of savings and allocation to investment projects at sub-regional levels. The role of the African Monetary Fund in this respect will be to act as a data bank which collects information on the different monetary and banking legislations and practices in force, gather practitioners to study and harmonize them and, render advisory and technical assistance services. The Fund will also advise member States in setting up institutions to mobilize capital and use development resources effectively.

Objective [illegible] provide a forum for consultation, coordination and collective action on regional and global monetary and financial issues

51. Certain important international financial issues with extra-African partners, if dealt with on a bilateral basis, would be more effectively addressed if coordinated action. The adoption of a common African position on the international monetary system, external debt issue consultations on new forms of aid flows and on the recycling of international surpluses, are a few examples of issues to be addressed in these fora organized by the AfMF. The African Monetary Fund would also be better equipped to assess the impact of the world economy on African countries as a whole, through studying trends in international commodity markets and in financial flows. This will enable it to orient the patterns of growth in the regional economy, and draw conclusions therefrom, in such a manner as will contribute to strengthening its consultative role with member States.

Objective [illegible] provide support for member states' balance of payments and facilitate adjustment especially arising from intra-African trade

52. In conformity with the perception of the constraints to African growth as arising also from domestic factors, the stimulation of intra-African trade constitutes a major strategy to increase growth. By providing support for intra-African trade transactions, there is also the encouragement of specialization and complementarity in African economies and the gradual lessening of extra-regional orientation of African trade. This could be achieved through the implementation of appropriate policies, namely the phased removal of trade and payments restrictions, the implementation of realistic exchange rates and the adherence to sound monetary and fiscal policies. In the initial stages, with the insufficient resources for the AfMF, financing could be restricted to intra-regional settlements. The facilities of the International Monetary Fund would continue to be utilized as at present, and the proposed AfMF financing will be supplementary. Eventually, it is expected that this supplementary role will continue even when a more sizeable AfMF provides for global balance of payments financing, but countries unable to obtain adequate IMF financing would find alternative or complementary AfMF financing.

II. Functions of the African Monetary Fund

53. While the main objective of the AfMF is to assist in enhancing socio-economic development in its member states through monetary and financial cooperation as well as to promote effective stabilization policies in monetary, financial and trade areas, the list of functions given below is by no means exhaustive but is intended to give a first approximation of what is required to start its operations. This being the case, these functions will have to be reviewed from time to time to take into account the latest socio-economic developments in the member States.

54. The following are the proposed initial functions of the African Monetary Fund:

1. To undertake monetary, financial and economic analysis, particularly on Africa, and provide reports consisting of commentary, applied research methods, literature surveys and specialised analytical work.

2. To undertake country-focused research studies and surveys on a regular basis in order to promote and encourage monetary and financial stability, sustained growth and co-operation among member States.

3. To participate and assist, when called upon to do so, in the economic reforms of member States; and to advise in the drawing up of short, medium and long term programmes and provide financing in order to ameliorate balance of payments disequilibria in a manner promoting monetary and financial stability in the member States.

4. To provide members with up-to-date information on capital markets and available sources of credit for balance of payments financing including bilateral and multilateral sources; and to provide technical assistance in the analysis of capital markets and drawing up collateral/guarantee schemes for needful member States.

5. To provide high-level training for member States in managerial, analytical, and policy-making capabilities in the areas of commercial policy, fiscal policy, monetary policy, taxation policy, central banking etc, as may be determined by member States; and in addition, to organize international symposia of experts in the African economy, particularly in the monetary and financial areas.

6. To provide the Technical back-stopping and facilities at all times necessary for member States to hold meetings aimed at developing Africa's common positions in international negotiations on monetary and financial issues.

7. To explore channels for enhancing resource availability and on-lending to AfMF members. This function has two complementary aspects: the mobilization of resources and ability to provide guarantees and/or collaterals to member States wishing to borrow from third parties. Resources could be lent and guarantees provided for short, medium and long term positions.

8. To act as a depositary and manager of any extraordinary funds entrusted to it by the member States, non-member States, or any international entities in and outside Africa provided that such deposits and managements are consistent with the constitution of the AfMF.

9. To perform such other functions as may from time to time be assigned.

III. Technical Operations of the African Monetary Fund

55. In the light of the proposal on the establishment of the African Monetary Fund (AfMF), an alternative scenario can be envisaged to take into account the present unfavourable economic and financial situation in Africa, where almost all countries are in persistent deficit vis-a-vis the rest of the world, although vis-a-vis each other some are permanently creditors while others are persistent debtors. The implication of this is that the proposed AfMF may not be able, at least in the foreseeable future, to provide financing facilities of global balance of payments deficits for all African countries, let alone the other ambitious functions conceived for it in the long run. The alternative proposal is a compromise between the necessity of having a pan-African monetary institution catering for Africa's interests, and the financial availability to bring it into operation. Therefore it is suggested that a gradual approach be adopted involving phasing the establishment of the Fund over an extended time span. The Fund will, therefore, have a modest start.

First Phase

56. In this phase, (lasting for about five years?) the AfMF could simply carry out limited functions with particular emphasis on the research and training areas. Research programmes can be reoriented so as to provide, inter alia, adjustment policy options for African countries, ensuring better management of their economies. Through well-prepared training programmes, including extensive and intensive training courses as well as various seminars, the Fund can enhance the professional standard and the policy analytical capabilities of the personnel of African central banks and governments.

57. In addition, the Fund can contribute significantly in this phase towards strengthening of the existing clearing houses by providing short-term credit facilities to debtor member countries. As is well-known, the major problem threatening the very existence of clearing houses is the structural imbalance in intra-group trade, where there are always countries accumulating surpluses year after year, and others in persistent deficit. The introduction, by the AfMF, of this short term credit mechanisms would provide temporary relief to debtor countries and an incentive to creditor countries to use the clearing houses, thereby encouraging member countries to channel their intra-trade through these institutions and the foundations for their becoming in due course sub-regional payments unions, to be eventually united in a regional arrangement. In this connection it may seem necessary to urge the countries of North Africa to establish their own sub-regional clearing house so that the benefits of the AfMF be evenly distributed among the four sub-regions. However pending the establishment of North African Clearing House, it could be agreed on exceptional basis to extend this facility to the existing bilateral payments arrangements in the sub-region in order to maintain sub-regional balance in the Fund's operations. Criteria for the access of member countries to the resources of the AfMF under this facility may be articulated in such a way as to be eventually conducive to the creation of sub-regional payments unions.

Second Phase

58. The Fund is expected in this phase (lasting for five years) to complete its take-off and be heading towards the undertaking of more developed operations. The provision of two additional facilities is suggested in this phase: medium-term credit to clearing houses, and stand-by arrangements. The first facility would further reinforce clearing houses and help promote them into sub-regional payments unions, to be eventually turned into a regional arrangement. Other things being equal, this would encourage the expansion of intra-regional trade to the maximum extent and thereby attaining self-reliance and self-sufficiency. The same issues discussed above for the short-term credit facilities can be said to the medium-term ones and others can also be thought of.

59. The provision of stand-by arrangements may also be considered in order to assist member countries facing extreme balance of payments stabilization pressures arising from extraordinary circumstances such as natural calamities and massive crop failures. To this effect, loans could be directed to financing of imports of goods and services used directly in the rebuilding of production structures and the amounts given would depend on the particular economy's circumstances and the extent of the damage inflicted on its structure.

Third Phase

60. The Fund is expected in this phase to be in a position to handle the difficult and controversial financing of global balance of payments of African countries. Yet, taking into account that almost all the countries are in persistent deficit vis-a-vis the rest of the world, this implies that the Fund resources would fall short of total financing requirements and consequently endanger the whole operations of the Fund, the provision of such facilities could be subject to relatively tougher criteria. The Fund, for example, could finance only those deficits due to exceptional circumstances such as adverse market conditions for the applicant's principal export commodities or services, unfavourable climatic conditions affecting the country's key export-ables. It may also be considered that rising import prices cited in support of the application must be related to the major goods and services imported and must include a high proportion of output-related intermediate and capital goods. High priority may furthermore be accorded to the country's development plans. The loan could, in addition, be given up to a certain limit so that a larger number of countries can benefit from the facility. The maximum amount can be determined by factors such as the country's predetermined quota in the Fund and its level of economic development, the total resources set aside by the Fund for use under this facility and the extent to which the country was using other AfDF facilities and resources from other international financial institutions for similar purposes. A fourth condition may require that the Fund must be satisfied with the seriousness of the country's case and the measure taken by the applicant to resolve the imbalance in its current account. Other criteria may be added like those conceived in previous studies on the project.

61. It may also seem useful for the Fund to consider in this phase the provision of a financing facility for food imports of some member countries necessitated by emergency or unforeseen conditions. Access to the Fund resources under this facility may be subject to special criteria aimed basically at strengthening African solidarity. For example, priority could be given to food imports from other African countries, thus contributing to Africa's objective of self-sufficiency in food. Preference could also be accorded to selected food items considered as vital for vulnerable groups.

Fourth Phase

62. In this final phase, the AMF will be able to tackle such issues so far proving intractable as making national currencies of member countries available for financing transactions, thereby ensuring at least their limited convertibility, an ambitious objective indeed.

63. The facilities in the various phases need not all be established at the same time but can be brought into operation over several years, as the organizational structure becomes more elaborate in the light of increased availability of financial resources of the Fund. The next chapter will therefore be devoted to an examination of the possible alternative organizational structures of the proposed Fund before looking into the financial feasibility of different alternative structures.

CHAPTER III

ORGANIZATIONAL STRUCTURE OF THE AFRICAN MONETARY FUND

1. The case of a fully-fledged Monetary Fund

64. The African Monetary Fund, as envisaged, will be concerned with regional economic and monetary policy as well as the balance-of-payments adjustment programme of its members. It is expected to encourage national economic reformation and stabilization. While initially the AMF may be able only to focus on strengthening the capacity for monetary policy formulation in member countries, it will, in the long run, also undertake balance of payments financing. Thus, when fully operational, the AMF would have the following organs: (i) a Board of Governors, (ii) a Board of Executive Directors, (iii) a Managing Director and a Deputy Managing Director, (iv) the Secretariat. In addition, the Fund may also establish any specialized committee or committees deemed appropriate. Each of these organs are described briefly below.

a. The Board of Governors

65. The Board of Governors will be the highest decision-making organ of the African Monetary Fund. All the powers of the African Monetary Fund will be vested in the Board of Governors, which will determine the Fund's general policy and supervise of its activities, delegating the general management of operations, whether related to adjustment policies or loans, to the other organs of the Fund. Each member State will appoint a Governor and an Alternate to the Board. However, an alternative system could be the appointment of a Minister of Finance as Governor for the AMF and Governor of a Central Bank as an Alternate. Members of the Board of Governors will not be appointed for fixed terms but will retain their positions until their successors are appointed. The specific powers of the Board of Governors, which will be specified in the Articles of Agreement, would include the following:

1) to determine the overall policy of the African Monetary Fund and to ensure that the objectives and functions specified in its Articles of Agreement are implemented,

2) to delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

(i) appoint the Managing Director and the Deputy Managing Director,
(ii) amend, modify or interpret the Articles of Agreement;
(iii) determine or alter the capital structure of the African Monetary Fund,
(iv) establish, abolish or accept the administration of any special funds,
(v) establish, revise or allocate subscriptions and quotas,
(vi) admit or expel members, or determine the conditions for the admission of new members or expulsion of existing members;
(vii) determine the distribution of the net income of the African Monetary Fund or any other reserves held on behalf of its members;
(viii) determine or establish the remuneration of the Executive Directors, Alternates, the Managing Director and the Deputy Managing Director and approve the salary scales of the General Secretariat;

(ix) establish co-operative arrangements with any other organizations, either within or outside Africa, except in implementation of specific assignments or in execution of purely administrative functions entrusted to it;

(x) to adopt its rules of procedure during its meeting.

66. Normally, the Board of Governors will meet once a year, preferably jointly with the African Development Bank Group, to consider, inter alia the report of the Board of Executive Directors and to determine the policy of the Fund. Extraordinary meetings of the Board of Governors may be called from time to time by the Managing Director at the request of at least one third of its voting members. A quorum of any Board meeting will comprise a majority of the members together exercising not less than two-thirds of the total voting power of the African Monetary Fund. Each Governor will be entitled to cast the maximum number of votes alloted to his country under the Articles of Agreement. No Alternate may, of course, vote in the presence of the Governor.

B. Board of Executive Directors

67. Board of Executive Directors will be appointed by the Board of Governors as provided in the Articles of Agreement. It is proposed that there should be not more than nine Executive Directors and nine Alternate Directors. On the assumption that the AMF would be open for external participation in its capital subscription, it is proposed that the formula used in the African Development Bank be adopted. In fact to minimise the operational costs of the African Monetary Fund, it is desirable that initially the Board of Executive Directors should be non-resident at the Headquarters. Such a non-resident Board may meet as often as required and probably once every quarter. It might also be less costly if the Governors and Deputy Governors of central banks constitute the Board of Directors. Eventually, however, as the operations of the AMF expand, it might be useful to consider the appointment of resident Executive Directors.

68. The mechanics for the election of the Executive Directors and their Alternates will be decided by the Board of Governors but it is suggested that the election should be based on formula used in the African Development Bank, which has already been accepted by the African countries.

69. The Board of Executive Directors will have the following functions and responsibilities.

1) it will review, direct, control and co-ordinate the financial, technical and other activities of the Fund and conduct business and exercise such other powers as may be granted to it by the Board of Governors;

2) it will approve the programme of activities of the Fund and put into effect the general policies and objectives of the Fund using powers provided for in the Articles of Agreement.

5) In conformity with the general directives of the Board of Governors, it will approve the annual report of the Fund, the country economic reports as well as the recommendations on 'economic reformation' and stabilization programmes. The Board of Executive Directors will also take decisions on the provision of financing and guarantees, borrowing by the Fund, interest rates and the size of loans, requests for financing under the various facilities, and other financial administrative and other activities of the Fund.

70. The Board of Executive Directors may set up committees and working groups to perform its functions, and these may comprise Board members and any other competent persons. It will adopt its own rules of procedures. The quorum and voting procedure will be similar to that of the Board of Governors. Each Executive Director can cast all the votes of his constituency.

C. The Managing Director

71. The Managing Director and the Deputy Managing Director will be appointed by the Board of Governors for a period of five years, and can be re elected for a further five years. They may not be Governors, Executive Directors or Alternates of the Fund. The Managing Director must be a person of the highest qualifications, technical competence and experience in the monetary and financial fields. He will chair the Board of Executive Directors and service the annual meetings of the Board of Governors. He will be the chief executive of the AMF Secretariat.

72. The Managing Director will have the following functions:

1) to conduct the day-to-day functions of AMF and to direct and supervise other work of the operational staff;

2) to chair all meetings of the Board of Executive Directors;

3) to appoint or dismiss staff of the organization;

4) to convene and service the annual meetings and extraordinary meetings of the Board of Governors;

5) to perform any other functions assigned him by the Executive Directors or the Board of Governors.

D. Specialized Committees of the African Monetary Fund

73. When the situation so warrants, the Board of Governors may establish a Committee or Committees to deal with specific issues on either a permanent or an ad hoc basis. For example, it might be useful to consider the creation of an African Monetary Fund Council consisting of all Governors of African central banks as a Consultative Committee. Such an African Monetary Council would correspond to the current Association of African Central Banks. The various subregional Committees of the Association (which roughly correspond to the 'Exchange and Clearing' Committees of the various African Clearing Houses) may also be maintained as Consultative Committees, especially in view of the fact that the AMF may lend to support the activities of the clearing houses. While the establishment of the Committees will have to be weighed against

the problems at hand, experience in the World Bank and the IMF has shown that such committees are essential.

E. Membership and control of the African Monetary Fund

74. The African Monetary Fund, as an African financial institution, will be owned and controlled by the African member countries. It is, therefore, proposed that the original members of the African Monetary Fund should be those African States who are members of the African Development Bank and whose governments have become parties to the Agreement establishing the African Monetary Fund.

75. A State which is not an original member may become a member upon accession to the Agreement establishing the African Monetary Fund and on terms and conditions that may be stipulated by the original members.

76. Based on the experience of the African Development Bank, it is also proposed that membership in the African Monetary Fund should be open to non regional participation. There is ample evidence to suggest that non regional participation is necessary if the African Monetary Fund is to develop into a viable institution taking into account the present monetary and financial situation in Africa, the need of the African countries for balance of payments financing and the interdependent nature of world monetary and financial relations 24/. In spite of the external participation, the African character of AMF can be maintained by means of majority equity holding and majority representation on the Board of Governors, the Board of Executive Directors and the professional staff of the Secretariat 25/. It is suggested that the same distribution of equity between regional and non-regional members in the African Development Bank be used for the African Monetary Fund.

24/ It is appropriate to draw lessons from the experiences of similar institutions such as the International Monetary Fund, the Arab Monetary Fund and the Asian Reserve Fund. Membership of the IMF is open to every State that controls its foreign relations and is able and prepared to fulfil the obligations of membership. Each member of the IMF has a quota which determines its subscription to the Fund and its share in allocations of Special Drawing Rights. The quota also affects a member voting power and maximum access to the financial resources of the IMF. The initial quotas of the participants were related to, but not fully governed by a formula that included national income, gold and dollar balances, average imports, the variability of exports, the ratio of exports to national income. The Board of Governors of the IMF is required, at intervals not exceeding five years, to conduct a general review of quotas and to propose any adjustments that it believes appropriate. AMF must be moulded on a somewhat different pattern. The most important issues in this regard are ownership, membership and the need to maintain the African character of the AMF. The second issue is voting power in the African Monetary Fund.

25/ The experience of the African Development Bank may be of relevance.

77. It is proposed that each African country should consider designating its Central Bank or other monetary authority to purchase equity shares on its behalf in amounts to be agreed and serve as the point of contact with AfMF. Governments would influence AfMF policy through their Ministers of Finance or governors of central banks in their capacity as members of the Board of Governors. Taking into account the nature of the business transactions and the need for efficiency, experience suggests it would be appropriate for Governments to use their central banks as the medium for transactions with AfMF.

F. Voting System within the African Monetary Fund

78. It is proposed that the voting power of each member of AfMF be related to the share of subscribed capital allocated to it in accordance with an agreed formula. On the issue of voting rights, it has been suggested by Intergovernmental Group of experts that a compromise between "one country, one vote" and the allocation of votes in proportion to number subscriptions or quotas should be adopted. This compromise formula is similar to the one used to determine voting power in the African Development Bank. The formula gives each member a uniform voting power plus one vote for each share held. Thus it can be seen that if the uniform voting power equals, for example 500 votes, a member with a holding of

100 shares would have	500 + 100= 600 votes
500 shares would have	500 + 500 = 1000 votes
2000 shares would have	500 + 2000 = 2500 votes

(one share = US 10 000)

79. While this formula strikes a useful compromise, if it is accepted, the individual country votes would have to be worked out on the basis of the agreed size of the initial capital, and the share held by external institutions will have to be viewed very carefully to avoid AfMF being significantly influenced by external considerations.

G. The Secretariat of the African Monetary Fund

80. The optimum secretariat staff of the African Monetary Fund cannot easily be determined. It is usual to start with a skeleton staff and increase the number as operations grow. Because of the pressing nature of Africa's problems, however, the structure of AfMF must enable it to begin doing certain basic tasks within the shortest possible time. As its activities increase, the need for additional staff would, as is customary, be periodically reviewed.

81. It is proposed, in addition to the Office of the Managing Director, that four departments should be set up during the initial stages of the African Monetary Fund as follows.

- Policy, Research and Training Department (PRT),
- Technical Cooperation Department (TDC),
- General Resources Department (GRD),
- Department of Administration (DA).

82. The structure of the Secretariat is suggested in the organizational chart at the end of this chapter

Policy, Research and Training Department

83. This department will be responsible for setting the overall policy of the AfMF and for all its research activities including the collection, evaluation and dissemination of monetary, financial, trade and balance of payments statistics, the preparation of financial and economic surveys, and the compilation of annual reports. It will also be in charge of formulating programmes related to currency matters, including the establishment and administration of any common unit of account. It will be responsible for the library and for the development of computer links with other African and international institutions. The department will also be responsible for helping member States to develop technical and managerial skills in money and for creating training programmes in these fields.

Technical Cooperation Department

84. The Technical Cooperation Department will be responsible for analysing the economic, monetary and financial situation in member States, monitoring stabilization and "economic reformation" programmes, assessing the effectiveness of balance-of-payments support programmes, and overseeing the harmonization of monetary, fiscal and exchange controls in member countries. This department will also be at the hub of all technical assistance activities of the AfMF. In collaboration with the PRT it will be responsible for ensuring that appropriate and timely responses are given to requests from member States for assistance. It will also foster implementation of AfMF assistance, and will encourage intra-African and subregional monetary and financial cooperation.

General Resources Department

85. This department will be responsible for the lending and credit programme of AfMF, short term balance-of-payments facilities as well as medium- and long-term loans. It will act as the treasurer of AfMF and be responsible for raising and managing the Fund's capital resources. It will also monitor all AfMF cash flows and the operations of the various facilities. It may, however, take time for this department to assume all its functions.

Department of Administration

86. This department will be responsible for administration, and would have sections dealing with personnel, funds operating, budget and finances, general services, conference servicing and security matters. The services it provides will include printing and publishing, building management, travel and recruitment. It will be responsible for purchases and the supply of furniture, equipment and stationery.

87. In addition to the above departments, it is proposed that the Office of the Managing Director will comprise the Managing Director, the Deputy Managing Director, special advisers and a legal office. The appointment of special advisers would depend upon identified requirements. The Legal Office would be a permanent entity headed by a Division Chief, not a Director. The Legal Office would inter alia deal with the growth of membership and treaties.

88. Each of the departments listed above should be headed by a highly qualified Director with extensive experience in his field. Division Chiefs should also be specialists in their particular areas of activity. The job descriptions of the various functionaries would be elaborated by the Managing Director. The Managing Director may dissolve existing departments or sections or create new ones, as he sees fit, in consultation with the Board of Executive Directors, in order to further the objectives of the African Monetary Fund.

II. The Case of a Monetary Fund and the Agent Bank

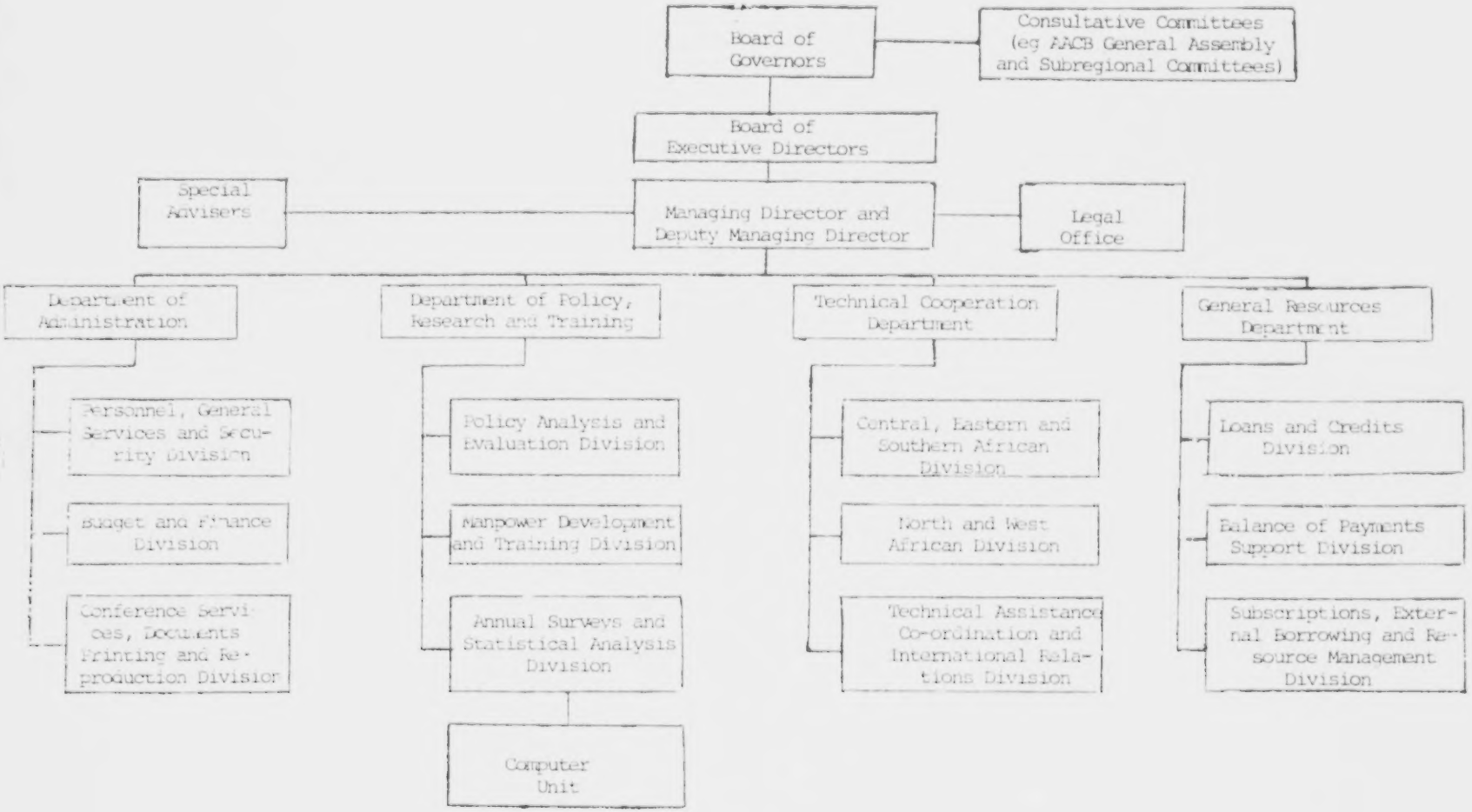
89. In the light of acute shortage of foreign exchange and the overall financial crisis facing regional member countries, it might not be feasible to establish a fully-fledged monetary fund. In this regard, this part is therefore, concerned with the alternative which involves limited legal status (of the proposed AfMF) in international law. As in the case of the Central American Monetary Stabilization Fund (CAMSF) there would be a monetary Council of Central Banks which manages and supervises the Fund and whose secretariat would be responsible for the general management and administration of the Fund, through an agent Bank. The secretarial services for the Monetary Council could, in the case of the AfMF, be provided by the African Centre for Monetary Studies (ACMS) which is the research arm of the association of African Central Banks. The ACMS may or may not charge the full cost for its services to the AfMF. For the purposes of this study, it is assumed that ACMS will absorb all the secretarial costs, at least initially.

90. The Agent Bank would be in charge of the performance, book keeping and control of the Fund's transactions. Each month, the Agent Bank would provide the Secretariat (and central banks), with a statement on operations of the Fund - i.e. investment, B.O.P. financing and changes in the statement. The Secretariat would then prepare a quarterly report for the Monetary Council.

91. In short, the Fund would be established on paper through an agreement among member central banks. Some central banks may not be able to take up equity in the Fund because this is prohibited by their respective country laws. For such central banks, their contributions could be in the form of deposits instead of subscriptions. Thus, the Fund would have no legal status in international public law. Because it cannot contract, it cannot borrow on its own. Loans secured are signed directly between the borrowing Central Bank and the creditor. This lack of legal status internationally has in fact hindered the CAMSF in its attempts to raise more external resources for its member central banks.

92. Should this option be adopted as an initial phase, an implementation report would then be prepared, taking into account the current structure and functions of the ACMS and any modifications found necessary. At this stage, the above description of the broad framework is considered adequate for decision making.

93. The following chapter will be devoted to the financial aspects of the proposed Fund, taking into account the two alternative organizational structures suggested in this chapter.


Board of Governors
Consultative Committees (eg AACB General Assembly and Subregional Committees)
Board of Executive Directors
Special Advisers
Managing Director and Deputy Managing Director
Legal Office
Department of Administration
Department of Policy, Research and Training
Technical Cooperation Department
General Resources Department
Personnel, General Services and Security Division
Budget and Finance Division
Conference Services, Documents Printing and Reproduction Division
Policy Analysis and Evaluation Division
Manpower Development and Training Division
Annual Surveys and Statistical Analysis Division
Computer Unit
Central, Eastern and Southern African Division
North and West African Division
Technical Assistance Co-ordination and International Relations Division
Loans and Credits Division
Balance of Payments Support Division
Subscriptions, External Borrowing and Resource Management Division

CHAPTER IV

FINANCIAL RESOURCES OF THE AFRICAN MONETARY FUND

INTRODUCTION

94. The main purpose of this chapter is to present the financial viability of the proposed African Monetary Fund (AfMF). It is proposed to start with a 5-year projection of the income and expenditure of the Fund, followed by that of the balance sheet and the cash flow statements. After this, the investment policy of the Fund, the capacity of the AfMF to borrow, and the prospects for mobilizing external sources are assessed. The possibility of special facility funds is investigated before concluding with an evaluation of the financial viability of the AfMF.

95. Reference will be made to the structures and experiences of existing Third World monetary funds such as the Arab Monetary Fund (AMF), the Central American Monetary Stabilization Fund (CAMSF), and the Andean Reserve Fund (ARF). In addition, where appropriate, reference to the Bank for International Settlements (BIS), the European Monetary System (EMS) and the International Monetary Fund (IMF) will be made. The experiences of the above institutions, except the AMF, were investigated during missions undertaken.

96. There are two forms the proposed AfMF could take during the initial years of operations. First, the Fund could commence operations as a fully-pledged entity recognised in international public law (Alternative I). This is the case with the AMF, ARF and IMF. The other (Alternative II) is for the Fund to exist on paper with the Council of Central Banks and its Secretariat processing balance of payments adjustment programmes and applications. Financial transactions are carried out by an Agent Central Bank until such time as the member countries can support and wish to have Alternative I. This is how the CAMSF and the European Monetary Cooperation Fund (EMCF) function. These two alternatives will be examined in this study.

OPTION I: A FULLY-PLEDGED AFRICAN MONETARY FUND

I. PROJECTIONS OF INCOME AND EXPENDITURE OF THE AfMF

97. In this section an examination of the expected sources of income and expenditure for the proposed Fund under Alternative I will be made, followed by projections of these flows.

A. The income of the Fund

98. The income projections will depend largely on the size of the fund, particularly the proportion of convertible currency which is paid-in, the amount the Fund can borrow and the interest rate on investments and credits to member countries.

a) The size and flow of capital resources of the AfMF

9. The income of the Fund will, among other factors, depend on the size and availability of subscription payments. Three proposals for the flow of capital subscription payments by members are presented below.

Proposal 1 (ADB formula, 1963)

Year	1	2	3	4	5	Total
% of total	40	20	20	20		
100% Forex (£M)	1 200	600	600	600		3 000
85% Forex (£M)	1 020	510	510	510		2 550

100. It is believed that one advantage here is that 40% of the capital will be available to the Fund during the first year and this is regarded as sufficient to commence operations significantly. However, it is doubtful if member countries can contribute £ 1.2 billion in year one and the rest in three years, unless the AfMF commences operations after economic and financial recovery has firmly taken place in African economies.

Proposal 2

Year	1	2	3	4	5	Total
45 countries with per capita income of less than $400 ('000)	359 010	359 010	359 010	359 010		
5 countries with more than $400 ('000)	521 320	521 320	521 320			
Total (100% Forex)	880 330	880 330	880 330	359 010		3 000 000
('000) (85% Forex)	748 280.5	748.280.5	748.280.5	305.158.5		2 550 000

101. The obvious advantage of this proposal is that lower income countries are given a longer period to pay-in their subscriptions than that given to higher income countries. However, the flow of capital during the first year is only 29.3% of the total compared with 40% under the first proposal. Thus, this proposal seeks to assist member countries to start with a lighter burden but it also makes funds less available to the Fund during the first year. This proposal suffers from the defect that it gives higher-income member countries too short a time within which to pay the rest of the contributions, given the current economic difficulties.

Proposal 3

50 countries at	Year	1	2	3	4	5	Total
100 000 ($M)		5	-	-	-	-	5
% of the rest		60	40	-	-	-	
Amount ($M)		1 797	1 298	-	-		
(100% Forex)		1 802	1 198				3 000 000
(85% Forex)		1 531.7	1 018.3				2 500 000

102. If forex was adequately available, the third proposal would ensure that the Fund commences with much more significant resources (60%) to make an immediate impact on member countries. However, given the scarcity of forex, this proposal may result in too many defaults and make the institution less credible. The basic assumption here seems to be that a once-and-for-all sacrifice by African countries would be in the best interest of the AfMF and member countries. This certainly would be ideal, but the hard realities of the current crisis dictate that the payment burden be stretched out.

Proposal 4

103. ADB has been experiencing problems with member countries which cannot meet their subscriptions on schedule. The current economic crisis has of course aggravated this situation. However, it is reported that the situation is improving mainly because of the longer time these countries have been granted to pay their subscriptions. From this experience, it is proposed here that the payment schedule be lengthened to 5 years for all member countries, with the option for early settlement by those countries which are able to do so. Furthermore, the initial instalment needs to be reduced to about 30% of the total and the rest would be paid in four equal instalments of 17.5%. Thus, the flow of payments would be as follows:

	Year	1	2	3	4	5		Total
% of total		30	17.5	17.5	17.5	17.5	=	100
100% Forex ($M)		900	525	525	525	525	=	3 000
85% Forex ($M)		765	446.25	446.25	446.25	446.25	=	2 500

104. It is clear from the above that proposal 4, after the initial payment, results in a lighter instalment burden than is the case with other proposals. Further, the initial payment is sufficiently large to permit the AfMF to commence its operations with some impact.

105. The above flow of paid-in subscriptions is based on the ,3 billion. In the view of the ADB based on very long and practical experience with the problems of capital contributions by member countries, it is extremely difficult to imagine where such resources will come from. In light of this apparent limited capacity to pay, the size of the proposed AfMF could be fixed at ,2 billion or ,1 billion (as a meaningful minimum). In the following, the three cases are examined in order to give decision-makers adequate room for decision.

(b) How significant will the AfMF be?

106. The fact that the IMF and World Bank, for example, are able to demand a programme of adjustment from member countries is basically because of the size of the finance they can offer and the quality of economic policy advice they can provide. Similarly, the ability of the AfMF to demand adjustment programmes from its members will critically depend on the average size of its credits relative to the balance of payments needs of the countries as well as its capacity for economic policy analysis and advice.

107. There are several approaches to quantifying the significance of the AfMF's operations. The most ideal one seems to be the ratio of credits to current account deficits. However, since part of the deficit could be taken up by adjustment measures, this measure will not give the desired result. Another indicator is the proposed size of the AfMF as a percentage of the cumulative purchase (, 5667 million) by African countries from the IMF between 1983 and 1987, a period of the most severe crisis. As table 1 indicates, this gives 52.9 per cent, 35.3 per cent and 17.6 per cent, respectively. Yet another ratio suggested by a confidential study on another proposed regional Monetary Fund is that of the size of the AfMF to the size of the African quotas (, 6 066.7 million) at the IMF. And, one third of the quotas would be regarded as adequate. As the Table shows, an AfMF size of ,3.0 billion would be adequate by both of the last two approaches while ,2.0 billion would have sufficient impact by the second and just about adequate if the third approach is used.

Table 7

The size of the AfMF as a percentage of:

Size of the Fund	Cumulative purchases from IMF, 1983-1987	African Quotas at the IMF
, 3.0 bn	52.9	49.6
, 2.0 bn	35.3	33.0
, 1.0 bn	17.6	16.5

108. The point being made here is that, the ,3.0 billion or , 2.0 billion size of the proposed AfMF can be regarded as significant and the Fund should have an important impact on the African member countries. There is no reason, therefore, why the Fund should not be able to demand acceptable economic adjustment programmes from its borrowers. However, a reduction in the size to ,1.0 billion would significantly reduce the impact of the proposed Fund.

(c) The proportion of contributions in foreign convertible currencies

(i) The case of 100% contributions in convertible currencies

109. This approach has been adopted by the ARF and CMF. The rationale behind this decision is that regional member countries have large deficits with non-regional countries and very small deficits within the region. It has been estimated that intra-African trade constitutes less than 5 per cent of total African trade, for example. Thus, the probability that well over 90 per cent of the deficits of African countries would be with non-regionals is very high. If that is the case, then contributions to the capital resources of the AfMF should be in convertible currencies acceptable to non-regionals. Even in the case of intra regional trade, under a clearing arrangement, the net position will have to be settled in convertible currencies. Thus, in the view of the ARF and CMSF officials, and indeed that of other experts, until regional currencies are convertible, it is virtually meaningless to include inconvertible national currencies in the contributions to the monetary fund.

110. It should be observed, however, that the IMF did initially accept inconvertible national currencies as a way of reducing the foreign exchange burden for the member countries. Further, this portion of contributions was intended to be used in the settlement of regional transactions when such a mechanism exist. By the time of final drafting of this chapter, that is 12 years after establishment, the IMF has not yet solved the problem of use of national currencies which are not convertible. In fact, during subsequent increase in capital, the IMF is said to have excluded contributions in national currencies.

111. When the ADB was established, all payments to its capital were in either gold or convertible currencies. During the third capital increase of the Bank, local inconvertible currencies contributions were permitted but during the fourth increase, these currencies were excluded. As of today, the ADB as well as the Inter-American Development Bank have concluded that the inconvertible national currency contributions to their respective capital have little, if any, significance at present. Even in the case of the IMF which accepts 75 per cent of contributions (quotas) in national currencies, that part of total national currency contributions which is usable is very small indeed (about 34 per cent) and the rest it completely idle, with no investment income for the Fund itself.

112. For the above reasons, it is considered virtually meaningless for the AfMF to receive inconvertible national currencies, at least at the beginning and until further studies have been carried out on use of such currencies. Thus, it is assumed here that all contributions will be in forex and that interest income can be earned on the whole amount, whether invested or lent out in Balance Payments Credits.

(ii) The case of part contribution in convertible currencies and part in national currencies

113. This general case applied to the IMF which requires 98 per cent of contributions to be paid in convertible currencies and 2 per cent in national currencies. In this case, only that part in convertible currencies earns interest income. However, as already pointed, national currency contributions may not be meaningful, unless such currencies are convertible and are used to settle intra-African net balance of payments transactions. Even then, for convertible national currencies to be used for credits, such currencies must be regarded as "strong", that is to say, only convertible national currencies of countries with "strong" balance of payments positions would qualify. Thus, only convertible currency component of the Fund would generate income.

114. As requested by the terms of reference for this study, it is suggested that the AfMF accepts 15 per cent of the contributions in national currencies. For the purpose of this chapter, it will be assumed that this national currency component of the paid-in subscriptions will not earn interest income for the Fund.

(d) The size of borrowings

115. In addition to own resources, the Fund is expected to raise other resources through borrowings, perhaps not initially but eventually The whole amount that the Fund could borrow for on-lending will also influence the size of income. Moreover, for the first 5 years of operations, the AfMF is unlikely to secure any significant amount of external resources through borrowing, particularly from the international financial markets. As indicated below the AfMF may succeed in mobilizing some concessional loans.

(e) The level of interest rate and service charges on credits and investments

116. Given the amount of resources employed in credits and investment, the level of interest rates on both will significantly influence the size of income of the Fund. The interest rate on investments will be determined by the international markets and can be regarded as exogenous to the AfMF. The rate of interest on credits out of borrowed funds also depends on externally determined cost of such funds. However, the management can influence the level of service charges on credits. Even then, the management could charge an interest rate lower than the cost of borrowed funds by blending such funds with its own funds if such a policy is regarded as prudent.

117. As for credits out of own resources, it will be up to management to decide on the rate of interest charged. If the Fund is operated on commercial basis, then the rate of interest on use of such funds would have to be based on the market rate in financial markets. In the case of the ARF, for example, the lending rate is LIBOR plus 0.5 per cent while in the case of the CAMSF the lending rate is 1 per cent less than the Prime Rate on the N.Y. market. The rationale behind this approach is that members' contributions to the Fund constitute immobilized foreign reserves unavailable for investment in alternative remunerative instruments. These funds would be most efficiently utilized if they were used at the market rate of interest (i.e. their opportunity cost)

rather than at a subsidized rate. This approach virtually guarantees a high rate of profit for the Fund. Such profits have been used to increase the capital contributions of member countries by the ARF and CAMSF at a time when any new contributions would have been very difficult to mobilize from members.

118. However, should the Fund members decide that the rate of interest on credits shall be below market rates (as is the case of IMF, EMS and AMF) then the base rate could be that between the average IMF charges and the market rate such as LIBOR. The rationale for charging subsidized rates is that market rates would add to the debt service burden of member countries. In this case, interest subsidies are preferred to increases in capital contributions from profits earned on the initial contributions. This approach seems to be possible in a region where some member countries are sufficiently developed to be in a position to subsidize others and to increase their contributions when need arises. In the case of the African region where almost all member countries have persistent deficits on current account, are developing and are dependent on external resources for development, it is difficult to see where the resources to finance subsidies will come from. If it is felt, as is expected, that the least developed countries should pay subsidized rates, then a special facility funded by developed countries would need to be set up.

119. At this point it is essential to point out that the international financial credibility of the proposed AfMF will depend heavily on its profitability and the manner in which such profits are appropriated. Thus, whatever rate of interest on credits is fixed from time to time, it must result in a high real rate of profit, particularly during the initial years of operation of the Fund, to enable the Fund to build up reserves and to increase the capital contributions as quickly as possible. When a monetary fund commences operations with a small amount of capital (as is likely to happen in the case of the AfMF) and in order to enhance its credit rating, it must build up its reserves as rapidly as possible. One certain way of doing so is for the Fund to charge the market rate on credits to its members out of its own funds. As the Fund matures, in terms of the size of capital and creditworthiness, the issue of subsidized interest rate could be considered. Even then, the case for a special fund for subsidized credits would seem to be more appropriate. The case for market rate seems to be very strong if present trends are a guide in terms of increasingly unavailability of concessional finance. This view is strongly shared by ARF and the CAMSF.

120. In general, the rate of interest on credits would have to be flexible in the sense that management should be able to decide on the rate to charge in light of a target income and desired rate of reserve accumulation. The size of the target income would be such that the fund will always experience surpluses of income over expenditures. Apparently this is the new policy of the IMF, after experiencing losses for the initial 11 years (except one) and from 1971 to 1977. Since 1981, the IMF has decided that it shall never incure deficits on income account. The main reason for the losses during 1971-77 period was that the IMF was charging less on credits to member countries than it was paying to member countries in form of remuneration. It can be concluded that the IMF has recently reduced the amount of interest subsidies member countries have been receiving in the past. If a monetary Fund which is backed largely by the most developed countries

had to reduce its subsidies, it is difficult to imagine how the AfMF could operate at subsidized interest rates on credits. As regards the EMS, credits for medium balance of payments support carry interest rate which lies between IMF charges and the market rate.

(f) Projected income by source

121. As for any financial institution and particularly the AMF and ARF the bulk of the income of the AfMF would come from investments and credits to member countries for balance of payments (B.O.P.) purposes. The following assumptions have been made in deriving income figures. First, out of the paid-in capital, an amount which is at least twice the size of annual commitments has been allocated to investment in liquid assets. Commitment figures are used here instead of disbursements since the two are likely to be the same in most years in practice and the disbursement rate is assumed to be around 75 per cent. The second assumption is that commitments would grow at a rate equal to that of own resources. Third, the AfMF is not expected to be able to borrow externally for reasons given under section 8 below. However, should it succeed in borrowing, the amount is likely to be so small that it could be ignored here. Fourth, the rates of interest of 6, 8 and 10 per cent on credits and investments are applied plus a service charge of 0.5 per cent on credits. The interest rates are assumed to be LIBOR on SDR deposits for the first 5 years. Fifth, in light of the fact that the OAU suggested size (+ 3 billion) of the AfMF appears to be very unrealistic, the cases of +2 billion and + 1 billion will also be examined. Sixth, it is assumed that the Fund will not commit any funds in B.O.P. credits during the first year. During this year, it is expected to establish itself and train its staff in adjustment programmes and familiarise itself with the whole business of balance of payments financing. This process could go on for more years but for the purposes of this study, it is assumed that the Fund will commence lending during the second year. Seventh, due to the limited nature of resources compared to B.O.P. financing requirements of member countries, particularly the large contributors, the AfMF will be expected to grant credits to each country up to an amount:

- 0.25 to 0.45 times the respective paid-in contributions in convertible currencies for members whose quotas are + 100 million or larger;
- 1.5 to 1.75 times the respective paid in contributions in convertible currencies for members whose quotas are less than + 100 million.

Finally, the average duration of credits is assumed to be 6 years with a grace period of 2 years.

(g) The projected Disbursement Programme

122. Given the above assumptions the projected lending and investment programmes for each case (+ 1 billion, + 2 billion and + 3 billion) are presented in tables 8, 9 and 10, respectively.

Table 8

Project Disbursement Programme (₤ 1.0 bn)

(₤ million)

	1990	1991	1992	1993	1994
Cumulative Disbursements	-	-	75	150	225
Plus annual Disbursements	-	75	75	75	75
	-	75	150	225	300
Less Credits Repayments	-	-	-	18.8	37.6
Outstanding Disbursements		75	150	206.2	262.4

Projected Effects on Cash Flow

(₤ million)

	1990	1991	1992	1993	1994
Cash Outflow Disbursements	-	75	75	75	75
Loan Repayments	-	-	-	-	-
	-	75	75	75	75
Cash Inflow					
Subscriptions	300	175	175	175	175
Credit Repayments	-	-	-	18.8	37.6
	300	175	175	193.8	212.6
Net annual Cash flow	300	100	100	118.8	137.6
Liquid Resources B/F	-	300	400	500.0	618.8
Net Liquidity available	300	400	500	618.8	756.4
Borrowings	-	-	-	-	-
Year end Liquid assets	300	400	500	618.8	756.4

Table 9

Projected Disbursement Programme (£ 2.0bn)
(£ million)

	1990	1991	1992	1993	1994
Cumulative Disbursements B/F	-	-	150	300	450
Plus annual Disbursements	-	150	150	150	150
	-	150	300	450	600
Less Credits Repayments		-	-37.5	75	75
Outstanding Disbursements		150	262.5	375	525

Projected Effects on Cash Flow

(£ million)

	1990	1991	1992	1993	1994
Cash Outflow					
Disbursements	-	150	150	150	150
Loan Repayments	-	-	-	-	-
	-	150	150	150	150
Cash Inflow					
Subscriptions	500	375	375	375	375
Credits Repayments	-	-	50	100	100
	500	375	425	475	475
Net annual Cash flow	500	225	275	325	325
Liquid Resources B/F	-	500	725	1000	1325
Net Liquidity available	500	725	1000	1325	1650
Borrowings	-	-	-	-	-
Year end Liquid assets	500	725	1000	1325	1650

Table 10

Projected Disbursement Programme (= 3.7 Le)

(£ million)

	1990	1991	1992	1993	1994
Cumulative Disbursements	-	-	300	600	900
Plus annual Disbursements	-	300	300	300	300
	-	300	600	900	1200
Less Credits Repayments	-	-	-	75	150
Outstanding Disbursements	-	300	600	825	1050

Projected Effect on Cash Flow

(£ million)

	1990	1991	1992	1993	1994
Cash Outflow					
Disbursements	-	300	300	300	300
Loan Repayments	-	-	-	-	-
	-	300	300	300	300
Cash Inflow					
Subscriptions	900	525	525	525	525
Credits Repayments	-	-	-	75	150
	900	525	525	600	675
Net annual Cash flow	900	225	225	300	375
Liquid Resources B/F	-	900	1125	1350	1650
Net Liquidity available	900	1125	1350	1650	2025
Borrowings	-	-	-	-	-
Year end Liquid assets	900	1125	1350	1650	2025

Gross Income Projections

The resulting gross income projections for each of the cases of ₹ 1 billion, ₹ 2 billion and ₹ 3 billion are shown on tables 11, 12 and 13, respectively. The income level could be higher depending on how skillful the management combines its investment portfolio. Should the service charge be raised to say 0.75 per cent, this would also increase the income flow.

Table 11

Projected Income from B.O.P. Credits and Investments (₹1.0 bn)

(₹ million)

Rate of Interest per annum	1990	1991	1992	1993	1994
at 6%					
B.O.P. Credits	-	4.5	9.0	12.4	15.7
Service charge at 0.5%	-	0.4	0.8	1.0	1.3
Investments	18.0	24.0	30.0	37.1	45.4
Total Income	18.0	28.9	39.8	50.5	62.4
at 8 %					
B.O.P. Credits	-	6.0	12.0	16.5	21.0
Service charge at 0.5%	-	0.4	0.8	1.0	1.3
Investments	24.0	32.0	40.0	49.5	60.5
Total Income	24.0	38.4	52.8	67.0	82.8
at 10 %					
B.O.P. Credits	-	7.5	15.0	20.6	26.2
Service charge at 0.5%	-	0.4	0.8	1.0	1.3
Investments	30.0	40.0	50.0	61.9	75.6
Total Income	30.0	47.9	65.8	83.5	103.1

Table 12

Projected Income from B.O.P. Credits and Investments (₹ 2.0 bn)

(₹ million)

Rate of Interest per annum	1990	1991	1992	1993	1994
at 6%					
B.O.P. Credits	-	990	15.8	22.5	31.5
Service charge at 0.5 %	-	0.8	1.3	1.9	2.6
Investments	30.0	43.5	60.0	79.5	99.0
Total Income	30.0	53.3	77.1	103.9	133.1
at 8%					
B.O.P. Credits	-	12.0	21.0	30.0	42.0
Service charge at 0.5%		0.8	1.3	1.9	2.6
Investments	40.0	58.0	80.0	106.0	132.0
Total Income	40.0	70.8	102.3	137.9	176.6
at 10%					
B.O.P. Credits	-	15.0	26.2	37.5	52.5
Service charge at 0.5%	-	0.8	1.3	1.9	2.6
Investments	50.0	72.5	100.0	132.5	165.0
Total Income	50.0	88.3	127.5	171.9	220.1

Table 13

Projected Income from B.O.P. Credits and Investments (= 3.0 bn)

(= million)

Rate of Interest per annum	1990	1991	1992	1993	1994
at 6 %					
B.O.P. Credits	-	16.0	36.0	49.5	69.0
Service charge at 0.5%	-	1.5	3.0	4.1	5.8
Investments	54.0	67.5	81.0	99.0	121.5
Total Income	54.0	87.0	120.0	152.6	196.3
at 8%					
B.O.P. Credits	-	24.0	48.0	66.0	92.0
Service charge at 0.5%	-	1.5	3.0	4.1	5.8
Investments	72.0	90.0	108.0	132.0	162.0
Total Income	72.0	115.5	159.0	202.1	259.8
at 10%					
B.O.P. Credits	-	30.0	60.0	82.5	115.0
Service charge at 0.5%	-	1.5	3.0	4.1	5.8
Investments	90.0	112.5	135.0	165.0	202.5
Total Income	90.0	144.0	198.0	251.6	323.3

B. Projections of Expenditure of the AfMF

123. The total expenditures of a monetary fund take the form of administrative, fixed and operational expenditure. The last item is composed of interest, fees and commission payments made by the Fund as a result of its borrowing operations, if any.

(a) The Administrative Budget

124. As already pointed out above, and as shown in table 14, the most important single item on the administrative budget of similar third world monetary institutions is salaries and allowances of staff and executive directors. This ranges from 45 to 48 per cent. Since the AfMF is likely to be more active than the AMF and ARF, mainly due to the fact that the latter's membership is smaller than that for the AfMF, this item is assumed to be between 50 and 70 per cent of the total. Salaries, wages and allowances are based on a very simple organizational structure. Both the Board of Governors and the Board of Directors would be non-resident with the latter meeting 4 times or more per year. As a monetary Fund, the role of the Governors of the 33 Central Banks in Africa would be dominant. Hence, only 33 members of each Board have been taken into account over the projected period. During the first year, only 8 professionals would be necessary, that is the President, Treasurer, and Secretary General and 5 Senior Economists. The number of economists is assumed to increase at an annual rate of 40 per cent, a little less than that of the number of loans averaging $ 34 million 26/ In addition, the budget takes into account some 12 to 20 supporting staff. The salary/wages are based on the latest ADB structure, taking the upper limit of grades M, G, S, P, PS and D. Allowances are assumed to constitute 20 per cent of the basic salaries and wages. By taking the upper limit, sufficient room has been left for increasing the number of less senior staff and still remain within the budget.

125. Rental costs are based on the number of offices for the staff mentioned above and on the actual rates (about $ 1. per M^2) received by ADB for its offices in Abidjan. The AfMF will have to rely on consultancy for quite some time. For this reason, this item is expected to grow as the Fund's operations expand. Depreciation allowance is 20 per cent on a straight-line basis covering furniture, equipment, vehicles, etc.

26/ This is the median size of purchases by African countries from the IMF from 1979 to 1983, a period of heavy purchases by these countries and hence a more useful period to refer to. Since 1983, purchases from the IMF have declined from $ 1818 million to $ 704 million per year.

(b) Capital Expenditure

126. The AfMF is not expected to purchase or build its own offices during its first years. Therefore, the only capital expenditure will include vehicle, office furniture, telex/telephone equipment, typewriters and computing facilities, etc. Since the AfMF would purchase these items duty free, there is room for inclusion of additional items without over-spending.

Table 14

AfMF: Projected Administrative Budget

(US Dollars)

	1990	1991	1992	1993	1994
Salaries, wages and allowances	893 745	1 023 345	1 217 745	1 542 945	1 931 745
Travel and accommodation	159 597	182 740	217 454	275 526	344 954
Rental of office space	168 539	178 005	191 016	214 898	240 937
Consultancy	127 678	146 192	173 964	220 421	275 964
Depreciation of fixed assets	77 860	78 842	80 392	96 374	99 444
Others	31 919	36 549	43 491	55 105	68 991
Total Administrative Expenditure	1 459 338	1 645 673	1 924 062	2 405 269	2 962 035

(c) Operational Expenses

127. Other than the administrative expenditure, the Fund will incure additional costs in the course of its borrowing for lending operations. Since the Fund is expected eventually to supplement members' subscriptions with externally borrowed resources, interest payments on these loans will constitute the largest portion of operational expenses. The latter in turn will grow relative to other expenses as the Fund expands. In fact, for the IMF, operational expenses as a proportion of total expenditure increased from 21 per cent in 1965 to 75 per cent in 1975 and 90 per cent in 1983. As for the ARF, operational expenses form over 90 per cent of total expenditure. Since AfMF is not likely to borrow during the first five years, operational expenses could be regarded as negligible for the purpose at hand.

C. Net Income Projections

128. The net income projections are found in tables 15, 16 and 17. The observed declining trend in per cent change from the previous year is explained by the slower disbursement and investment growth rates and higher growth rate in "other assets", which may include gold, national currencies, etc. This means that if the growth in the former were increased, that of the latter would decrease and percentage change in income from the previous year would show a constant or an increasing trend. It also depends on whether the "other assets" would earn income or not. The conditions assumed here, therefore, are conservative. When projected 27/ inflation rate is taken into account, the real rate of return on paid-in capital falls below 5 per cent in all cases. Depending on the efficiency of management, this rate could be raised.

27/ See World Bank, World Development Report, 1984, Chapter 3, Table 3.1, p. 35 for projected rates of inflation for 1985-1995.

Table 15

Forecast of Income and Expenditure Statement ($ 1.0 bn)

($ million)

	1990	1991	1992	1993	1994
INCOME (AT 6%)	16.0	20.9	30.8	50.5	62.4
EXPENDITURE	1.9	1.6	1.8	2.5	3.0
Excess of Income over Expenditure	16.1	27.3	37.0	48.0	59.4
% Change	-	69.6	35.7	26.6	23.8
Return on paid-in Capital (%)	5.4	5.7	5.8	5.8	5.9
Less inflation rate of 4.3%	1.1	1.4	1.5	1.5	1.6
INCOME (AT 8%)	24.0	38.4	52.3	67.9	82.8
EXPENDITURE	1.9	1.6	1.8	2.5	3.0
Excess of Income over Expenditure	22.1	36.8	51.0	64.5	79.8
% Change	-	66.5	38.3	26.7	23.7
Return on paid-in Capital (%)	7.4	7.7	7.8	7.8	8.0
INCOME (AT 10%)	32.0	47.4	65.8	83.5	103.1
EXPENDITURE	1.9	1.6	1.8	2.5	3.0
Excess of Income over Expenditure	30.1	46.8	63.9	81.0	100.1
% Change	-	64.9	36.5	26.8	23.6
Return on paid-in-Capital (%)	9.4	9.7	9.8	9.8	10.0
Less inflation rate of 6.0%	2.6	2.9	3.0	3.0	3.2

Table 16

Forecast of Income and Expenditure Statement ($ 2.3 bn)

($ million)

	1990	1991	1992	1993	1994
INCOME (AT 6%)	30.0	53.3	77.1	103.9	133.1
EXPENDITURE	1.9	1.6	1.9	2.5	3.0
Excess of Income over Expenditure	28.1	51.7	75.2	101.4	130.1
% Change	-	84.0	45.4	34.8	28.3
Return on Paid-in Capital(%)	5.6	5.9	6.0	6.2	6.5
Less inflation rate of 4.3%	1.3	1.6	1.7	1.9	2.2
INCOME (AT 8%)	40.0	70.3	102.3	137.9	176.6
EXPENDITURE	1.9	1.6	1.9	2.5	3.0
Excess of Income over Expenditure	38.1	68.2	100.4	135.4	173.6
% Change	-	81.6	45.1	34.9	28.2
Return on paid-in Capital(%)	7.6	7.9	8.0	8.3	8.7
INCOME (AT 10%)	50.	88.3	127.5	171.9	220.1
EXPENDITURE	1.9	1.6	1.9	2.5	3.0
Excess of Income over Expenditure	48.1	86.7	125.6	169.4	217.1
% Change	-	80.2	44.9	34.9	28.2
Return on Paid-in Capital(%)	9.6	9.9	10.0	10.4	10.9
Less inflation rate of 6.0%	2.6	3.1	3.2	3.6	4.1

Table 17

Forecast of Income and Expenditure Statement (S$ 2.5 bn)

($ million)

	1990	1991	1992	1993	1994
INCOME (AT 6 %)	94.0	97.0	120.0	152.6	186.3
EXPENDITURE	1.2	1.6	1.7	2.5	3.0
Excess of Income over Expenditure	52.1	85.4	118.1	150.1	183.3
% Change	-	63.9	38.3	27.1	22.2
Return on paid-in Capital(%)	5.2	6.0	6.1	6.1	6.4
Less inflation rate of 4.3%	1.5	1.7	1.8	1.8	2.1
INCOME (AT 8%)	72.5	115.5	157.0	212.1	259.2
EXPENDITURE	1.2	1.6	1.7	2.5	3.0
Excess of Income over Expenditure	71.1	113.2	157.1	199.6	256.2
% Change	-	62.5	37.9	27.1	28.7
Return on paid-in Capital(%)	7.8	8.9	8.1	8.1	8.6
INCOME(AT 10%)	90.0	144.0	198.0	251.6	323.3
EXPENDITURE	1.2	1.6	1.9	2.5	3.0
Excess of Income over Expenditure	88.1	142.4	196.1	249.1	320.3
% Change	-	61.7	37.7	27.0	28.6
Return on paid-in Chapital(%)	9.7	10.0	10.1	10.1	10.7
Less inflation rate of 6.3%	3.0	3.4	3.3	3.3	3.9

II. [illegible]

A. Projected assets of the AMF

129. A monetary fund such as the AMF and CAMF affects its assets basically through granting of balance of payments credits, guaranteeing loans obtained by member countries from third parties, investing funds not immediately required for credits and acquisition of fixed property.

130. During the initial years, the AMF is expected to employ most of its resources in form of investments in time deposits and securities. This is essential in order for the fund to acquire familiarity and respect in the international financial community. As the Fund gains experience in financing B.O.P. and as the demand for finance increases, more funds could be channelled into credits, relative to investments.

131. For example, the AMF held 81 per cent of its assets in time deposits and marketable securities in 1977 and nothing in credits to other countries. By 1982, 42 per cent of assets were in loans to member countries while only 48 per cent was held in time deposits. The AMF operated for the first 3 years without extending any B.O.P. credits. At the end of June 1981, only 17.5 per cent of resources were in credits and 77.4 per cent in investments. However as at June 1984, B.O.P. credits took 54.2 per cent and investments 44.1 per cent of resources. The only exception is the CAMF which has never held more than 20 per cent of its assets in investments. This is mainly explained by the fact that the CAMF is not a separate entity in international law and particularly that virtually all of administrative costs are borne by either the Bank of Guatemala, its agent bank or the Government of Costa Rica (where the Fund is based). The fund has no physical assets of its own.

132. From the above experiences, it is clear that investments and credits will constitute the most important component of the balance sheet of the AMF. Investments are expected to exceed credits initially if the Fund commences operations at a time when most countries have balance of payments surpluses, thus obviating the need to borrow. However, should the Fund commence operations during the current balance of payments crisis in most African countries, then credits may look large on the balance sheet at the outset, given adequate resources.

B. Projected Capital, Reserves and Liabilities

133. Balance of payments financing requires that a monetary fund relies more heavily on its own resources (paid-in subscriptions, reserves and retained earnings). The main reason is that a surplus country today could become a deficit one tomorrow, whereas borrowing by the Fund to finance deficits is not that automatic. Further, whether the adjustment programme did succeed or not, funds borrowed by the Fund for credits would need to be repaid on schedule, if the Fund is to maintain its credit-worthiness.

134. The experiences of the AMF, ARF and CAMF, as indicated by Table 18 solidly support the view that a monetary fund needs to commence operations with adequate resources of its own, particularly if it commence as a separate entity in international law. Depending on the growth in demand for credit and the image the Fund displays in the eyes of creditors, borrowing can become significant in due course. The apparent increasing trend for the CAMF reflects the increasing difficulties faced by the Fund in attempting to borrow without legal status of its own. In all cases, however, the point still remains that borrowing is a small proton of resource requirements for monetary funds. The projected balance sheets of the AMF are shown in Tables 19, 20 and 21 respectively.

Table 18

Own Resources as a Percentage of Total Resources

	1977	1978	1979	1980	1981	1982	1983
AMF	98.1	98.6	99.6	98.9	98.3	98.5	100.0
CAMF	...	46.2	47.5	66.9	71.3	73.6	...
ARF	...	98.3	76.0	90.8	88.4	89.1	91.5

Table 12

Forecast of Balance Sheet ($ 1.0 bn)

($ million)

Assets (at 6%)	1990	1991	1992	1993	1994
Cash at Bank	0.3	0.5	0.7	1.0	1.2
Investments	300.0	400.0	500.0	618.8	756.4
B.O.P. Credits	-	75.0	150.0	206.2	262.4
Others	15.8	42.9	80.6	128.3	168.7
Total Assets	316.1	518.4	731.3	954.3	1 188.7
Capital, Reserves & Liabilities					
Paid-in Capital	300.0	475.0	650.0	825.0	1 000.0
Reserves	16.1	43.4	81.3	129.3	188.7
Liabilities	-	-	-	-	-
Total	316.1	518.4	731.3	954.3	1 188.7
Assets (at 8%)					
Cash at Bank	0.3	0.5	0.8	1.0	1.2
Investments	300.0	400.0	500.0	618.8	756.4
B.O.P. Credits	-	75.0	150.0	206.2	262.4
Others	21.8	58.4	102.0	173.3	234.1
Total Assets	322.1	533.9	759.8	999.3	1 254.1
Capital, Reserves & Liabilities					
Paid-in capital	300.0	475.0	650.0	825.0	1 000.0
Reserves	22.1	58.9	109.8	174.3	254.1
Liabilities	-	-	-	-	-
Total	322.1	533.9	759.8	999.3	1 254.1
Assets (at 10%)					
Cash at Bank	0.3	0.5	0.8	1.0	1.3
Investments	300.0	400.0	500.0	618.8	756.4
B.O.P. Credits	-	75.0	150.0	206.2	262.4
Others	27.8	73.9	137.5	218.3	299.3
Total Assets	322.1	549.4	788.3	1 044.3	1 319.4
Capital, Reserves & Liabilities					
Paid-in capital	300.0	475.0	650.0	825.0	1 000.0
Reserves	23.1	74.4	138.3	219.3	319.4
Liabilities	-	-	-	-	-
Total	323.1	549.4	788.3	1 044.3	1 319.4

Table 20

Balance Sheet (Case 2.1 bn)

(E million)

	1990	1991	1992	1993	1994
Assets (at CE)					
Cash at Bank	2.6	1.0	1.4	1.9	2.4
Investments	500.0	725.0	1 000.0	1 325.0	1 650.0
E.C.P. Credits	-	150.0	262.5	375.0	525.0
Others	27.5	77.3	141.1	179.5	209.1
Total Assets	530.1	954.3	1 405.0	1 881.4	2 386.5
Capital, Reserves & Liabilities					
Paid-in capital	500.0	875.0	1 250.0	1 625.0	2 000.0
Reserves	30.1	79.3	155.0	256.4	386.5
Liabilities	-	-	-	-	-
Total	530.1	954.3	1 405.0	1 881.4	2 386.5
Assets (at 7%)					
Cash at Bank	2.6	1.0	1.4	2.0	2.5
Investments	500.0	725.0	1 000.0	1 325.0	1 650.0
E.C.P. Credits	-	150.0	262.5	375	525.0
Others	27.5	106.3	193.3	266.1	339.2
Total Assets	530.1	982.3	1 457.7	1 968.1	2 516.7
Capital, Reserves & Liabilities					
Paid-in capital	500.0	875.0	1 250.0	1 625.0	2 000.0
Reserves	38.1	107.3	207.7	343.1	516.7
Liabilities	-	-	-	-	-
Total	538.1	982.3	1 457.7	1 968.1	2 516.7
Assets (at 10%)					
Cash at Bank	2.6	1.0	1.5	2.0	2.6
Investments	500.0	725.0	1 000.0	1 325.0	1 650.0
E.C.P. Credits	-	150.0	262.5	375.0	525.0
Others	47.6	133.8	246.4	352.8	468.3
Total Assets	540.1	1 009.8	1 513.4	2 054.8	2 646.9
Capital, Reserves & Liabilities					
Paid-in capital	500.0	875.0	1 250.0	1 625.0	2 000.0
Reserves	40.1	134.8	260.4	429.8	646.9
Liabilities	-	-	-	-	-
Total	540.1	1 009.8	1 510.4	2 054.8	2 646.9

Table 21

Forecast of Balance Sheet ($ 3.0 bn)

($ million)

Assets (at 6%)	1990	1991	1992	1993	1994
Cash at Bank	1.0	1.6	2.2	2.9	3.6
Investments	900.0	1 125.0	1 350.0	1 650.0	2 025.0
B.O.P. Credits	-	300.0	600.0	825.0	1 150.0
Others	51.1	135.9	253.4	402.3	420.4
Total Assets	952.1	1 562.5	2 205.6	2 880.7	3 599.0
Capital, Reserves & Liabilities					
Paid-in capital	900.0	1 425.0	1 950.0	2 475.0	3 000.0
Reserves	31.1	137.5	255.6	405.7	599.0
Liabilities	-	-	-	-	-
Total	952.1	1 562.5	2 205.6	2 880.7	3 599.0

Assets (at 8%)					
Cash at Bank	1.0	1.6	2.3	3.0	3.8
Investments	900.0	1 125.0	1 350.0	1 650.0	2 025.0
B. .P. Credits	-	300.0	600.0	825.0	1 150.0
Others	69.1	182.4	339.2	537.7	618.7
Total Assets	970.1	1 609.0	2 291.1	3 015.7	3 797.5
Capital, Reserves & Liabilities					
Paid-in capital	900.0	1 425.0	1 950.0	2 475.0	3 000.0
Reserves	70.1	184	341.1	540.7	797.5
Liabilities	-	-	-	-	-
Total	970.1	1 609	2 291.1	3 015.7	3 797.5

Assets (at 10%)					
Cash at Bank	1.0	1.7	2.4	3.2	4.0
Investments	900.0	1 125.0	1 350.0	1 650.0	2 025.0
B.O.P. Credits	-	300.0	600.0	825.0	1 150.0
Others	87.1	228.8	424.2	672.5	817.0
Total Assets	988.1	1 655.5	2 376.6	3 150.7	3 996.0
Capital, Reserves & Liabilities					
Paid-in capital	900.0	1 425.0	1 950.0	2 475.0	3 000.0
Reserves	88.1	230.5	426.6	675.7	996.0
Liabilities	-	-	-	-	-
Total	988.1	1 655.5	2 376.6	3 150.7	3 996.0

III. PROJECTED EFFECTS OF THE CASH FLOW

135. Finally, the effects of changes in income and balance sheet on the cash flows are shown in Tables 22, 23 and 24. The results show a constant trend in the net increase in liquidity. This is the ideal condition for successful operation of the fund, at least until 1994. However, should the annual subscriptions flow in at an increasing rate, the net increase in liquidity would also rise.

Table 22

Forecast of Cash Flow Statement ($ 1.5 billion)

($ million)

	1990	1991	1992	1993	1994
Sources					
Subscriptions	200.0	175.0	175.0	175.0	175.0
Net Income	16.1	27.3	37.2	47.0	59.4
	316.1	202.3	212.2	223.0	234.4
Applications					
Increase in Credits	-	75.0	75.0	75.0	75.0
Increase in other assets	16.1	27.3	37.2	48.0	59.4
	16.1	102.3	112.2	123.0	134.4
Net Increase in Liquidity	300.0	100.0	100.0	100.0	100.0

Table 23

Forecast of Cash Flow Statement ($ 2.0 billion)

($ million)

	1990	1991	1992	1993	1994
Sources					
Subscriptions	500.0	375.0	375.0	375.0	375.0
Net Income	28.1	51.7	75.2	101.4	129.4
Credit Repayments	-	-	-	-	-
	528.1	426.7	450.2	476.4	505.1
Applications					
Increase in Credits	-	150.0	150.0	150.0	150.0
Increase in Other Assets	28.1	51.7	75.2	101.4	129.4
	28.1	201.7	225.2	251.4	279.4
Net Increase in Liquidity	500.0	225.0	225.0	225.0	225.0

Table 24

Forecast of Cash Flow Statement (U.S. billion)
(U.S. billion)

Sources	1980	1981	1982	1983	1984
Conservation	[illegible]	325.0	325.0	325.0	325.0
Net Income	47.1	75.4	113.1	157.1	169.2
Credit [illegible]	-	-	-	-	-
	372.1	411.4	443.1	475.1	719.2
Applications					
Increase [illegible]	-	300.0	300.0	300.0	300.0
Increase [illegible] Assets	52.1	63.4	117.2	157.1	193.2
	52.1	363.4	417.1	457.1	493.2
Net Increase in Liquidity	320.0	225.0	225.0	225.0	225.0

OPTION II

THE AFMF AND THE AGENT BANK ALTERNATIVE

I. THE STRUCTURE AND OPERATIONS OF THE PROPOSED FUND

A. Organisational Structure

136. This part is concerned with the alternative which involves limited legal status (of the proposed AFMF) in international law. As in the case of the CACM, there would be a Monetary Council of Central Banks which manages and supervises the Fund and whose secretariat would be responsible for the general management and administration of the Fund, through an Agent Bank. The secretarial services for the Monetary Council could be provided by the African Centre for Monetary Studies (ACMS) which is in any case the research arm of the African Central Banks. The ACMS may or may not charge the full cost for its services to the AFMF. For the purposes of this study, it is assumed that ACMS will absorb all the secretarial costs, at least initially.

137. The Agent Bank would be in charge of the performance, book keeping and control of the Fund's transactions. Each month, the Agent Bank would provide the Secretariat (and central banks), with a statement on operations of the Fund - i.e. investment, S.D.R. financing and changes in the statement. The Secretariat would then prepare a quarterly report for the Monetary Council.

138. In short, the Fund would be established on paper through an agreement among member central banks. Some central banks may not be able to take up equity in the Fund because this is prohibited by their respective country laws. For such central banks, their contributions could be in the form of deposits instead of subscriptions. Thus, the Fund would have no legal status in international public law. Because it cannot contract, it cannot borrow on its own. Loans secured are signed directly between the borrowing Central Bank and the creditor. This lack of legal status internationally has in fact hindered the CACM in its attempts to raise more external resources for its member central banks. Up to 1982, the CACM was still operating under this structure - an indication of problems of adequacy of resources.

B. Projected Income and Expenditure, Balance Sheet and Cash Flow for the AFMF

139. Even if the Agent Bank case is opted for, the lending programme and the sources of income will be basically the same as those for a $1 billion fully-fledged monetary fund - that is income from S.D.R. credits and investments 2/. The sources of expenditure will be interest and fees on any loans secured by the Fund for on-lending and expenses incurred by the Agent Bank while administrating the Fund's financial affairs. This means that the Fund will not acquire physical assets such as furntiture, equipment, office buildings, etc. Hence no depreciation allowance is made. There are no staff salaries, wages and allowances to be paid as the Fund itself will have no staff of its own. No rental expenses are involved because the Fund will have no offices as such.

140. In the case of the CA[illegible], for example, the Agent Bank, in the spirit of Central American solidarity, absorbs all the indirect administrative expenses, except cost of cables, postage, etc. Below is a picture of the income and expenditure statement of the C[illegible] (see Table 25). The important point to note here is that the expenditure/income ratio was 0.1 per cent over the period 1970-1982. When this ratio is compared with those for the ADB and the AfDF, which are fully-fledged institutions, the least cost nature of the Agent Bank alternative is clearly revealed (see Table 26). However, if the Agent Central Bank is not prepared to absorb all the indirect costs then the full cost of services of the staff and equipment of the Agent Bank would have to be paid. This is the case with the [illegible] which acts as an agent for E.C.O. In that case, the ratio of expenditure to income for the fund would be expected to rise but will still remain much lower than that of a fully-fledged monetary fund. For our purposes here, the Agent Bank is assumed to charge the full cost of administration to the [illegible], as a minimum condition, using the cost sharing formula employed by AfDB for costs of the African Development Fund 29/.

141. The projected income and expenditure, balance sheet and the cash flow statements for the Agent Bank alternative are shown in tables 27, 28 and 29. For our purposes here, only cases of interest rate of 6 per cent and 10 per cent are examined. The expenditure forecast could be regarded as being on the high side for this alternative. If a lower figure is used, the net income would increase accordingly. The real rate of return on paid-in capital can be considered reasonable when interest rate on credits and investment is 10 per cent or higher.

29/ Without the full complement of staff, it is assumed that the Agent Bank alternative can manage the fund successfully if the size of the fund is restricted to $1 billion. However, if a larger fund can be managed under this alternative, then the benefits would increase.

23/

No. of ADB loans approved in Budget year	+	No. of ADF loans under execution and disbursement	+0.10	No. of ADF loans fully disbursed but being repaid

No. of ADB and Bank Group loans approved in Budget year	+	No. of ADF and Bank Group loans under execution and disbursement	+0.10	No. of ADF and Bank Group loans fully disbursed but being repaid

Table 25

CAISS: Statement of Income and Expenditure

(percentage)

Income	1978	1979	1980	1981	1982
Interest income from investments	55.9	33.1	21.1	21.0	14.2
Interest income from HIP Credits	44.0	66.5	75.4	75.9	84.0
Other income	0.1	0.4	0.5	2.2	1.8
Total	100.0	100.0	100.0	100.0	100.0
Total amount ($ million)	3.0	5.6	7.5	11.5	10.5
Expenses					
Interest and fees	-	-	17.2	21.5	64.6
Cables and others	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0
Total amount ($)	2677	3332	26250	5752	10381
Memorandum					
Expenses as a % of Income	0.1	0.1	0.3	0.0	0.2

Source: Calculations based on data from CAISS, Annual Reports 1978-1982.

Table 26

Administrative Expenditure as % of Gross Income for Third World Monetary Funds

Name of the Fund	1977	1978	1979	1980	1981	1982	1987	1988
CAISS		0.1	0.1	0.3	0.0	0.2	...	...
ADF		6.6	15.2	7.7	13.5	11.7	1.90	1.85
AMF	25.6	31.8	26.4	29.6	29.2	19.5	14.06	...

Table 27

AFT: Projected Income and Expenditure

($'000)

Income (at 6%)	1990	1991	1992	1993	1994
Interest Income from Investment	15,000	24,900	30,000	37,100	45,400
Income from EOP Credits	-	4,900	9,900	13,400	17,000
Other	-	-	-	-	-
Total	15,000	28,900	39,900	50,500	62,400
Expenditure					
Travel and Accommodation	160	183	217	276	345
Consultancy	120	146	174	220	276
Interest on Loans	-	-	-	-	-
Cables, etc.	30	37	43	55	69
Total	320	366	434	551	690
Excess of Income Over Expenditure	17,680	28,534	39,566	49,949	61,710
% Change from previous year	-	61.4	35.2	29.5	23.5
Return on paid-in Capital (%)	5.9	6.9	5.9	6.9	6.2
Less Inflation rate of 4.3%	1.6	1.7	1.6	1.7	1.9
Income (at 10%)	30,000	47,900	65,900	83,500	103,100
Expenditure	320	366	434	551	690
Excess of Income over Expenditure	23,680	47,534	65,366	82,949	102,410
% Change from previous year	-	60.2	37.5	26.9	23.5
Return on Paid-in Capital (%)	9.9	10.9	10.1	10.1	10.2
Less Inflation rate of 6%	3.9	4.9	4.1	4.1	4.2

Table 28

AfT: Projected Balance Sheet

(US$ million)

Assets (at 5%)	1990	1991	1992	1993	1994
Cash at bank	0.3	0.5	0.7	1.0	1.2
Investments	300.0	400.0	500.0	610.0	756.4
IDF Credits	-	75.0	150.0	210.2	262.4
Other	17.4	45.7	84.1	133.7	176.4
Total	317.7	521.2	734.8	959.7	1196.4
Capital, Reserves and Liabilities					
Subscriptions	300.0	475.0	650.0	825.0	1000.0
Reserves	7.7	46.2	84.8	134.7	196.4
Liabilities	-	-	-	-	-
Total	317.7	521.2	734.8	959.7	1196.4
Assets (at 10%)					
Cash at bank	0.3	0.6	0.8	1.0	1.3
Investments	300.0	400.0	500.0	610.0	756.4
IDF Credits	-	75.0	150.0	210.2	262.4
Other	20.4	76.6	141.8	224.5	307.8
Total	320.7	552.2	792.6	1045.5	1327.9
Capital, Reserves and Liabilities					
Subscriptions	300.0	475.0	650.0	825.0	1000.0
Reserves	20.7	77.2	142.6	225.5	327.9
Liabilities	-	-	-	-	-
Total	320.7	552.2	792.6	1050.5	1327.9

Table 29

AIC Projected Cash Flow Statement

($ million)

Sources	1990	1991	1992	1993	1994
Subscriptions	300.	175.0	175.0	175.0	175.0
Net Income	17.7	28.5	38.6	49.9	61.7
	317.7	203.5	213.6	224.9	236.7
Applications					
Increase in Credits	-	75.0	75.0	75.0	75.0
Increase in Cash and other assets	17.7	28.5	38.6	49.9	42.9
	17.7	103.5	113.6	124.9	117.9
Net Increase in Liquidity	300.0	100.0	100.0	100.0	118.8

II. [illegible] INVESTMENT AND RESERVE POLICY OF THE AFMF

142. As with other monetary funds, the investment policy of the AFMF would have to be based on the four principles of safety, liquidity, profitability and reciprocity. These principles are not new. However, if the Fund is to mobilise external resources eventually and play a significant role in the balance of payments financing of member countries, these criteria should be adhered to at all times.

143. The liquidity of the Fund's assets would have to be high enough to enable it to create confidence in it by international banks and member central banks and to meet its obligations to member countries and creditors promptly. The Fund is expected to deal with reputable financial institutions in the financial markets of interest to it, in order to ensure safety of its investments. The degree of profitability of the Fund will greatly influence its capacity to attract external resources. However, profitability alone is not adequate. The profits would have to be employed in building up the capital subscription of the member countries - an important factor taken into account in credit rating by creditors. This criterion of profitability rules out subsidization of interest rates on credits. The Fund would, finally, need to establish very close ties with reputable international banks and central banks (including member central banks) and to secure reciprocity with such institutions. By this is meant ability to secure external resources at more favourable terms from those institutions in which the Fund invests its resources not immediately available for lending. Unless this reciprocity is sought, the Fund could find itself lending more to international banks than it is able to borrrow from them.

144. Reserves of a monetary institution constitute part of its own resources. As such, the amount of reserves enhances its credit-worthiness. The desired rate at which reserves are built-up will depend on management decision which in turn will be influenced by the initial size of capital and the ease with which additional capital subscriptions can be secured from member countries. In the case of the AFMF, where increases in capital subscriptions are likely to be difficult, the management will need to build-up reserves immediately and very rapidly thereafter. The actual rate of accumulation of reserves may also depend on the level of interest and other charges on balance of payments credits and interest on investments. Thus, after setting a desirable target rate of reserve accumulation, the rate of interest on credits could be determined accordingly. It may be useful to note that the IMF management has recently decided that reserves shall grow at 3 per cent per annum. Interest adjustments are made to achieve this target.

EXTERNAL RESOURCE MOBILIZATION

I. THE CAPACITY OF THE AFRICAN [illegible]

145. This section is concerned with an examination of the capacity of the AfDF to borrow funds, both internally and externally. The possibilities for borrowing are discussed in detail in section III below. It is, therefore, proposed to start with an analysis of the factors which determine the capacity of a monetary fund to borrow. This is then followed by forecast of the amounts which the Fund could raise through borrowing.

A. Factors determining the capacity to borrow

146. The amount of subscribed capital stock and the credibility of the shareholders of an institution generally determine its capacity to borrow additional funds 30/. Theoretically, the amount that could be raised through borrowing is equal to that part of the convertible currency callable portion of subscription capital. In the case of a long established development finance institution with a proven record, the ratio of paid-in to callable capital need not be very high. But in the case of monetary funds, the whole amount of the subscribed capital in convertible currency must be paid-in and it is this which determines how much could be borrowed. For example, the ADF is permitted by its statutes to borrow up to twice its authorised capital and general reserves. As at the end of 1982, 80 per cent of the authorised and subscribed capital was paid-up. In practice, however, ADF has not used this provision. The ADB on the other hand does not have this statutory limit on borrowings. However, the paid-in capital constitutes 37 per cent of authorised and subscribed capital. According to the ADB officials, it has been very difficult for them to achieve a debt to paid-in capital ratio of 1.1. For the IMF, the ratio of debt to quotas was 0.3:1 in 1982 and 0.3:1 in 1983 31/. These ratios suggest that during the initial years of the AfDF it may be extremely difficult to raise external loans of significant amounts. This is the reason why the previous financial projections were based on own resources alone.

147. The management and financial performance of the AfDF also enter the credit rating exercises. This aspect will only be important after a few years of operations. However, high profitability and liquidity of the Fund in the early years could greatly improve its capacity to borrow in future. The important point here is that management and profitability are largely influenced by the Fund itself and its members and, therefore, efforts would have to be made to project a high performance record right from the beginning.

30/ It is important to note that, for the AfDF, it is the convertible currency part of the subscriptions which would matter in credit rating and not the local currency component.

31/ According to the Executive Board Decision No. 7040 (82/7) January 1982, borrowing plus unused lines of credit will not exceed the range of 50 to 60 per cent of the total IMF quotas.

148. A more important element than paid-in capital that goes into credit rating of a monetary fund is not only the quantity but the quality of various assets of the AfMF. Paid-in capital is used for credits and investment. Thus, investments in convertible currency instruments would be more desirable than B.O.P. credits to member countries whose credit-worthiness is very low. Of course, it does not seem to make sense for AfMF to invest liquid funds outside Africa. But, if ADB experience is any guide it may well be prudent for one reason, exchange risk may be too high to invest in African currencies which in any case are not convertible unless African governments agree to absorb the risk jointly. Another reason for external investment is that it would be more profitable to do so, given the low average rate of interest in Africa. The point here is that for a monetary fund whose membership is economically and financially poor, it is the volume of convertible currency liquid assets which will determine the amount which could be borrowed.

B. Projected Borrowing by the AfMF

149. For the purpose of this study, it will be assumed that the AfMF will adopt a rather passive or conservative attitude to borrowing until the institution has matured and established its reputation in international financial circles. Thus, after the first five years of operation, the Fund could be restricted to borrowing an amount not exceeding 50 per cent of its subscribed and paid-in capital. This could generate additional resources of $ 500 million, $ 1 000 million and $ 1 500 million depending on the size of the Fund. However, in practice, the AfMF may find it is extremely difficult to raise this amount for reasons given in section II below. It is instructive to note that the ARF was not able to raise the ratio of borrowing to paid-in capital and reserves to over 50 per cent until after 5 years of opration. Currently, this ratio stands at 82.4 per cent, about 35.3 per cent of which is accounted for by borrowing from member central banks in form of fixed deposits and promisory notes 32/.

II. THE POSSIBILITIES OF OBTAINING EXTERNAL FINANCE TO SUPPLEMENT SUBSCRIPTIONS BY MEMBER COUNTRIES

A. The necessity for external finance

150. According to the principle of balance of payments financing by a regional monetary fund, there must exist within the region enough surpluses to finance deficits. This is why the IMF functions relatively smoothly in financing world deficits. This may be true with respect to intra-African trade which constitutes about 5 per cent of total African trade. The bulk of the deficits of all African countries is with non-regional countries, it is extremely difficult to see how such a fund can operate, unless non-regionals are admitted.

32/ ARF, Fax message, 23 May, 1989.

151. An examination of the international reserve situation of most African countries shows that these countries do not seem to have extra reserves which they can use to subscribe to the proposed Af.F. It is generally agreed that the minimum level of reserves that should be regarded as adequate is 2 months' worth of imports. From Table 30, it is clear that most African countries do not appear to have extra foreign reserves with which to contribute meaningfully to the Af.F. Most of the countries for which information was available had reserves of less than 2 month's worth of imports. Although the situation appears to have improved by 1986, the reserves must have been accumulated at the expense of imports of capital goods. As a result, many of these countries are finding it difficult, if not impossible, to raise foreign reserves for subscription in full to existing institutions such as the AfDB, ADB/AfDF, PTA, the Common Fund for commodities, just to mention a few.

Table 30

Frequency of Gross International Reserve Holdings

in Months of Import Coverage

	1981	1982	1986
Less than 2 months worth	68	67	58
2-3 months worth	12	13	21
Over 3 months worth	20	20	21
Total	100	100	100
Number of countries	25	30	38

Source: World Bank, World Development Report, 1984 and 1988.

152. Of course, if and when world recovery spills over to Africa in a sustained way, then the situation would be different. But, recovery in Africa has still not materialized despite adequate growth in the rest of the world. In the absence of meaningful recovery, a drastic cut in the import bills could release the necessary foreign exchange resources for contribution to the Af.F. However, it must be recognised that the opportunity cost of diverting these resources to the Af.F would be the reduction in essential imported capital goods and raw materials, investment and growth in output and employment. It is possible that most African countries have exhausted their

capacity to reduce imports further as can be indicated by rising accumulation of arrears. In that case, additional resources must be found extrenally. Several alternative sources of such resources are examined below. These include voluntary deposits by African institutions, grants, loans (including concessional) and subscription resources from non-regionals.

B. Deposits from African Central Banks and Regional Financial Institutions

153. After payment of subscriptions to the AfMF, member central banks may still have some foreign reserves left. Some of these reserves are currently held with Central Banks, the BIS and international private banks. Should the Fund be able to offer competitive terms (i.e. profitability, safety and liquidity), there is no convincing reason why at least a small proportion of such funds could not be attracted by the AfMF. For example, the ARF has recently issued attractive short-term fixed deposit instruments to its member central banks at 9.25 per cent to 9.8125 per cent per annum. When these rates are compared with the interest earned by the Fund on its investments of between 8.375 per cent and 9.8125 per cent these instruments are indeed competitive. As a result of this innovation, the ARF had mobilized US$153.4 million as at 30 June, 1984 and US$140.6 million as at 31 December, 1987 33/. These funds constituted 47 per cent of the paid-in capital of this Fund in 1984 and 30 per cent in 1987. The AfF had no borrowings from member central banks or from external sources as at the end of 1987 and 1988.

154. Estimates of the likely volume of central bank deposits the AfMF could attract can only be made after responses from selected African central banks on this issue. Preliminary investigation, however, indicates that this idea is not unrealistic. However, surplus reserves must exist in the first place. Secondly, the reaction by central banks would very much depend on the attractiveness of the instruments. The ADB (which is not a monetary institution) did manage in 1975 to raise $13 million (out of the intended $20 million) from central banks in the form of 2-year bonds. This alone constituted about 6 per cent of the paid-up capital of the Bank. Currently, the amount from this source stands at $60 million, of which 52.2 per cent is accounted for by African central banks. It is, therefore, not unrealistic to expect the AfMF to eventually raise as much as this amount. For the purpose of this study, it should be possible for the Fund to eventually raise an amount which is at least 10 per cent of its paid-in subscriptions, that is $100 million, $200 million and $300 million, depending on the size of paid-in capital.

155. Regional and sub-regional African financial institutions and marketing organizations also may have surplus foreign assets held in international financial centres. There seems to be good reasons to expect part of these resources to be deposited with the AfMF on competitive terms, Here we have in mind the African Development Bank Group, Africa-Re, Shelter-Afrique, Sub-regional Finance Institutions, and marketing organizations. But again, it all depends on availability of surplus funds, willingness to release them and the attractiveness of the instruments offered by the AfMF.

33/ ARF, Fax message, 23 May, 1989.

C. Grants

156. Given the underdeveloped nature of most African countries, the AfDB may be able to secure grants from OPEC and Socialist countries. It may be worth noting that the AEF, ADB and CAISS have not yet received such funds since commencement of operations. The main reason given by the ADB and CAISS was that they had not yet taken the initiative to solicit for grants. It was also felt that soliciting for grants could be regarded by creditors as a sign of weakness. However, trends in the flow of these resources to developing countries indicate that it has become increasingly difficult to raise these types of funds. Difficulties over replenishing IDA are well known. During our discussions with the Treasurer of the European Commission, it was pointed out that a request of this nature by a regional monetary fund had never been made and that decisions would be made one way or the other when such a request was received. Thus, if and when the AEF is established, the management could approach non-regional countries for grants to supplement member countries' subscriptions or indeed to assist poorer member countries to subscribe to the fund. The latter assistance has already been granted to certain African countries for subscription to the Common Fund for commodities. The fact that the majority of the world's least developed countries are in Africa and that donors have shown considerable sympathy for these countries, the prospects for securing some grants for the AEF appear to be good.

D. Concessional and non-concessional loans

(a) Concessional loans

157. Should outright grants be difficult to raise, it may be possible to obtain loans on concessional terms. That is, loans at interest rate well below market rates and with long repayment periods. The CAISS was able to raise US$10,000,000 from US AID at 3 per cent per annum for 25 years, with a 5 year grace period. The condition for this soft loan was that the profits made should be distributed among member countries in the form of additional subscriptions to the capital of the Monetary Fund. It is not unreasonable to expect that this type of loans could also be secured by the AEF.

158. If donors are reluctant to give outright grants, it seems reasonable to expect that they would make funds available if there is a promise to repay these funds at some interest rate, though well below the market rate. This belief is supported by the fact that when foreign aid bills are presented in Parliaments of donor countries, the point that such funds are loans and not grants is often stressed to get approval more easily.

159. Possible sources of concessional loans which could be approached are government development institutions (such as UK Overseas Development Administration, European Development Fund, USAID) in both market and socialist developed countries. The experience of ADB was that it could not turn to external sources of finance until 1973, thus ten years after establishment. When it did, the first resort was loans of about US$12 billion from foreign governments. However, this source dried up as donors' preference was for direct lending to African countries. Thus, of the total amount for the 30 borrowings by ADB between 1973 and 1982, only 5 per cent was foreign government loans and floatation of bonds subscribed by foreign Central Banks. The rest, 95 per cent, was from the private markets.

160. Third world countries, particularly OPEC members, could also provide concessional loans. Of the US$919.7 million made available to African countries from the OPEC Fund by 1982, 43.1 per cent or US$396 million was in the form of balance-of-payments loans. If these loans were made available to Africa in the absence of a balance of payments financing institution, it is quite reasonable to assume that once in operation, the AfMF should be able to raise similar funds from the OPEC Fund. During the mission to EMS, a certain amount of sympathy with Africa's determination to work towards monetary and economic integration was observed. There is a good chance that these sentiments could be translated into concrete action.

161. Putting all the above sources together, it is expected that the AfMF would be able to mobilize an amount of concessional loans of at least $300 million over a five-year period, most likely after the first five years of operations. However, the most important requirement that would have to be met is the ability of the AfMF to produce credible and defensible adjustment programmes with adequate conditionality.

(b) Non-concessional loans

162. The Fund could, after several years of successful operations, also supplement members' subscriptions with non-concessional loans - that is short- and long-term loans at market rates of interest. However, the experience of other monetary funds studied shows that market borrowing has become extremely difficult. The ARF, in particular, pointed out that it was extremely difficult to borrow beyond the Fund's liquid investments. This situation was expected to continue for a long time. The reason for this tight credit situation is not, of course, lack of loanable funds in the world but lack of confidence by creditors in debtors. Indeed, there has been a sharp decline of international private lending, particularly to Latin America and Africa, the two regions which have been more severely affected by debt crisis. The situation is most likely to be worse for a new institution with virtually no track record.

163. At this stage it is not possible to say how much the AfMF could mobilize in market loans. All that can be said is that the Fund would have to command very high credit rating and this would be influenced by the credit-worthiness of member countries themselves. Under the current external debt crisis in Africa, it will be extremely difficult for the Fund to raise its credit-worthiness.

164. However, as a regional financial institution, the AfMF should, in due course, be able to mobilize these market funds at a spread above LIBOR smaller than the spread paid by individual central banks. Many African countries cannot even have access to these markets. Thus, the Fund could play a very significant role in inducing the flow of market funds for member countries' balance of payments financing. Indeed, the ARF has succeeded in playing this role of intermediary for the benefit of member countries. This has been possible not because the ARF is a regional institution with international legal standing but mainly because this Fund is managed as a technical institution whose driving force is guided by the principles of safety, liquidity, profitability and reciprocity.

159. The ability to attract external funds is also influenced by the extent to which the monetary fund enforces conditions for use of its resources. During the discussions, it was stressed that no institution would lend money to a monetary fund (or balance of payments financing) which does not enforce reasonable conditionality. Thus, the AMF would have to design and enforce policy conditions for the use of its resources, if it is to succeed in mobilising external funds, from both private and official sources.

160. As a summary, the possibilities of raising external loans by the AMF exist, provided that the conditions discussed above are met. However, it is not going to be easy at all and it would be advisable not to rely too heavily on non-concessional loans which in any case will be very expensive for most member countries. For these reasons, this study has assumed that the AMF will not be able to borrow on the market for several years after establishment.

The opening of subscriptions to non-regional countries 34/

161. The possibility of member countries failing to meet their convertible currency subscriptions in full cannot be overemphasised. As already noticed, many African countries cannot meet their contributions in full to existing regional and international institutions. Grants and loans cannot be relied on, particularly during the initial years of operation of the Fund, as already noted above.

162. Since most African countries have balance of payments deficits with non-regionals, it is suggested that the latter should be invited to subscribe to the fund without the right to draw on it as is the case at the IMF. It is possible that some non-regional countries would be willing to contribute to a monetary fund without the right to draw on it. The main reason is that balance of payments financing is reversible while development financing is not. This means that a surplus country may not wish to contribute to a monetary fund unless that country can draw on the fund if and when the surplus turns into a deficit. The possibility that a surplus country can become a deficit one is beyond doubt. Thus, a non-regional country would prefer to subscribe to a fund (like IMF) from which it can draw when the need arises. In that case, it could be argued that African members would lose little if the AMF could offer its non-regionals to have limited access to its resources as long as the African character of the fund is maintained. This is unlikely to be attractive to the non-regionals because they may refer to continue to support and draw from the IMF in which they have greater voting power and access to larger resources.

34/ This option was not included in the terms of reference for this study. However, the idea was included here simply to give the decision-makers more options from which to choose. It may turn out to be the most feasible solution, if the ADB's experience is a guide. Further, it is of interest to note that the IMF and the IBRD are thinking along these lines.

169. However, if and when the AfMF is well established, the management should be encouraged to actively pursue this alternative source of external resources. The rather pessimistic view expressed about this option is based on discussions with technical experts at the European Commission, and the views of the governments were not obtained on this issue. The success by the ADB on this issue is one important reason for optimism. If the same proportion of 2/3 of voting power is maintained by African members and 1/3 by non-regionals, the proposed $3,000 million capital could be raised to $4,500 million if the latter group of countries were permitted and willing to join the AfMF without drawing from it or with limited access. Most likely no developed non-regional member is probably going to request support from a monetary fund designed to serve the interests of the poorest countries in the world.

III. SPECIAL FACILITY FUNDS

170. The idea of special facility funds is meant to meet the needs of some countries with balance of payments problems arising from special circumstances such as drought, land-lockedness and other factors completely out of the control of the member countries. In the case of Africa, there are some countries (28 of them) which are classified as least developed and 22 debt-distressed. A case can be advanced for special treatment of such countries. This criterion is recognised by the international donor community and could be adopted by the AfMF. Thus, the need for special facility funds or special treatment of some members within the AfMF cannot be overemphasized. The problem is one of securing suitable resources for this purpose.

171. Special facility funds, if they are to meet their objectives, must be secured at very concessional terms and conditions. The type of funds the African Development Fund raises from time to time would be most appropriate for this purpose. Thus, the main source would be grants and exceptionally low interest funds. In the first place, some wealthier African Governments could be expected to give grants to the Fund for this purpose. The Federal Republic of Nigeria has taken the lead by establishing the Nigeria Trust Fund within the ADB Group. There is no reason why similar offers of solidarity should not be made to the special funds within the AfMF as economic recovery materializes and becomes sustained.

172. There is growing evidence that the developed countries are bending backwards from efforts to meet the financial needs of the least developed and debt-distressed countries. For example, examination of the growth in ODA by economic class of countries shows that since 1975, least developed countries have increased their share of ODA. The main multilateral aid Agencies such as the European Development Fund, UNDP, etc.; could be approached for this purpose. This is by no means to suggest that mobilization of grant funds will be easy.

173. Thus, it can be expected that when and if special facility funds are established within the AfMF, necessary funds are expected to be forthcoming, but perhaps not in sufficient volume to support required stabilisation and adjustment in the relevant countries.

174. The terms and conditions for the use of special facility funds will naturally differ from those for the use of development funds. First, the period of repayment for a monetary fund would have to be much shorter than 50 years as is the case with ADF funds. However, the repayment period would have to be long enough to facilitate smooth adjustment. Second, the rate of interest charged would have to be much lower than charged for the use of the general resources of the Fund. Third, some conditions for use of resources will be required, although not as tough as those attached to the use of general resources. This is absolutely essential if the Fund is to improve its image to the donor community. Thus, however small and poor a country may be, the use of AfMF credits would have to carry some conditions, particularly those conditions designed to improve efficiency and increase the supply of goods and services.

175. As for the timing, it may be wise to postpone the establishment of special facility funds until the Fund has established its credibility in the financial community. This is not likely to happen within the first few years of the life of the AfMF. However, the provision to establish special facility funds needs to be included in the articles of agreement if and when it is decided that the AfMF should be established.

IV. CONCLUSIONS AND RECOMMENDATIONS ON THIS CHAPTER

176. The principal aim of this chapter has been to investigate the financial viability of the proposed AfMF for the first five years of operations. The analysis has included the availability of resources and the profitability of the Fund. The study has assumed that the Fund's main income generating activity is balance of payment financing and investment. This assumption is based on the experience of other third world monetary funds. Other minor functions have been assumed not to bear significant results on the financial statements of the Fund.

177. The size of financial resource requirements as projected in the initial study has been supplemented in this chapter with two alternative sizes which attempt to take into account the capacity by member countries to contribute. The chapter also assumes that the Fund will not borrow during its first years of operations. Instead, the Fund will be expected initially to rely entirely on its own capital resources as has been the case with other third world monetary funds.

178. Given the amount of own resources indicated in this chapter and if the administrative budget suggested here is adhered to, the analysis in this chapter indicates tentatively that, whether the Fund is a fully-fledged or an agent bank type, it is likely to realize a positive real rate of return on paid-in capital. The liquidity of the Fund appears adequate enough for it to establish its credibility over time.

179. As for the choice between a fully-fledged one or not, it would be preferable, in our opinion, to start [illegible] to adopt the former, as this would enable the Fund to evolve its own identity and create its own image in the financial markets in order to make future variations.

180. The $ 1 billion case seems to be the more feasible from the capacity-to-pay point of view. However, the significance of the impact of the Fund on member countries would be enhanced if the size of the Fund was at least $ 2 billion. The Fund could, therefore, be established with an initial capital size of $ 1 billion and allowed to grow to $ 2 billion or $ 3 billion during and/or after the first five years.

CHAPTER V

[illegible] CRITERIA, POLICIES AND PROCEDURES

GENERAL CRITERIA FOR FINANCING

181. In setting out the general criteria for financing, the AfMF would take into account the prospective borrower-specific characteristics and the economic policies it intends to pursue to correct its imbalances. The borrower-specific characteristics such as per capita income, level of foreign reserves, level of debt owed to the AfMF, credit ratings, membership status to the AfDB, quotas, etc. should help determine the conditions of drawing, the interest rates and other charges. Adherence to agreed economic policies may require the AfMF to specify some economic criteria to be achieved over a period of time. The aim is for the AfMF to follow rigorous standard to gain credibility and inspire the confidence of its members and the international donor community.

182. As the AfMF might start with modest resources, it would have to lay down the conditionalities governing the general use of its resources for the following specific functions:

A. Short-Term Credit Facility for Clearing Houses

(a) This facility would finance deficits of African countries experiencing settlement difficulties because of problems of seasonal or cyclical nature with short-term effects. The volume of financing would be proportional to the applicant's total trade through the clearing house, the resources available under this arrangement and the country-specific characteristics;

(b) The use of this facility would be subject to the AfMF cost of new capital plus a margin. In the case of the least developed members, the interest charge may be equivalent to the AfMF current cost of capital plus a margin;

(c) The use of this facility would be subject to a report on the measures adopted to liberalize intra-African trade because this facility should seek to promote a greater utilization of the clearing mechanisms;

(d) The AfMF would guarantee payments to the creditor country but the debtor country would accept counterpart liabilities to the AfMF and would agree to make repayments [illegible] 2 years for least developed countries and up to [illegible] years for others 35/. The liquidity of the facility could be enhanced by inviting interest-bearing contribution and deposits from developed countries, donor agencies, and so on.

35/ The periods of the conditionalities shown in brackets are for [illegible] only. They have to be re-examined by the relevant authorities when the fund is established.

B. Medium-Term Credit Facility for Clearing Houses

(a) This facility would finance deficits of African countries experiencing settlement difficulties because of problems of seasonal or cyclical nature with medium term effects;

(b) Lending conditions such as the volume of financing, the interest rates and the conditions for drawing would be similar to those for short-term financing except that the maturity would extend to 5 years in the case of the least developed countries and 3 years for others.

C. Standy-by Financing Arrangements

(a) This facility would provide assistance to countries facing balance of payment difficulties arising from the destruction of their production as a result of persistent drought, exhaustion of mineral deposits and any other exogenous factors. The volume of financing would cover a certain proportion of the damage inflicted or the losses recorded by the applicant as well as the resources available under this facility and the country-specific characteristics;

(b) Lending conditions namely, the interest rates and the conditions of drawing would be similar to those of the medium term credit facility in addition to AfDF being satisfied that the economic policies adopted are adequate to correct the imbalances. (The maturity of the loans would not exceed 6 years in the case of the least developed economies and 4 years for others).

D. Balance of payments Financing Facility

(a) The primary function of this facility will be to extend resources to member countries facing balance of payments problems arising from exogenous and temporary short-falls in export earning or high import prices in the presence of limited foreign exchange reserves. The volume of financing export earnings shortfalls would be established by a comparison of average earnings for the twelve-month period preceding the application with average earnings over a three-year period before the year of application. The volume of financing high import prices would be similar to that used in defining export short-falls;

(b) Lending conditions, namely, the interest rates and the conditions for drawing would be similar to those of the standy-by arrangements except that the maturity would not exceed 5 years in the case of the least developed economies and 3 years for others.

E. Food Import Financing Facility

(a) This facility would assist AfDF members in financing food imports necessitated by emergency for unforseen conditions such as bush fire, flood, locust invasion, war and to enable countries to cope with steep rises in import prices of basic cereals. This facility would give priority, as far as possible,

to cereals imports from African markets in order to promote intra-African trade. This facility would also finance deficits arising from normal clearing and payments operations involving intra-African or subregional trade in food; this could also be extended to cover items needed to increase domestic food supplies;

(b) The maximum amount available to a country under this facility would be determined by factors such as its predetermined quota in AfDF, its level of economic development, the resources available under this facility and the seriousness of the food shortage coinciding with a substantial decline in its foreign exchange.

(c) Lending conditions such as interst rates and condition for drawing would be similar to the short and medium-term credit facility for balance of payments problems except that the maturity would not exceed 4 years in the case of the least developed economies and 2 years for the others.

F. Facility for Financing Limited Convertibility

(a) This facility would assist an AfDF member to purchase another's currency in exchange for its own, for use in payments for legitimate transactions. Since this facility would enhance a greater utilisation of the clearing mechanisms, the volume of financing under this facility would be proportional to the applicant's total trade through the clearing house, the resource available and the applicant's level of economic development. A country may also purchase such amounts of its own currency held by the AfDF exceeding its quota holding as determined by the Articles of Agreement;

(b) Other lending criteria, namely the interest rates, the maturity and the conditions for drawing would be similar to that of the short-term credit facility for the clearing houses.

ANNEX

TRANSFORMING THE ACMS TO BECOME AN AFRICAN MONETARY FUND

It has been suggested that a feasible approach to the creation of an African Monetary Fund would be initially the strengthening of the African Centre for Monetary Studies so that it might have a much more enhanced, a more country-specific role in analysing Africa's monetary and related difficulties and in assisting countries in formulating alternative policy options to those advocated, for instance, by the IMF, on the basis of which they can negotiate and obtain external resources in amounts and terms more responsive to their problems. Therefore, initially the provisions of balance of payments finance, a necessary complementary function, would have to be obtained from existing African institutions. The purpose of this section is, therefore, to examine specifically the objectives, functions, strategies and structure of the African Centre for Monetary Studies and suggest how they can be modified to make the institution the nucleus of an African Monetary Fund.

A. THE OBJECTIVES

The objectives of the African Centre for Monetary Studies and those proposed for an African Monetary Fund are as follows:

THE OBJECTIVES OF THE ACMS	THE OBJECTIVES OF AN AMF
1. To promote the economic development of African economies through the better understanding of banking and monetary matters as instruments of economic development.	1. To assist member states to formulate sound monetary and financial policies which are conducive to stronger real economic growth both at the national and regional levels.
	2. To assist member countries in creating an enabling environment which fosters viable and efficient financial monetary systems.
	3. To provide a forum for consultation, co-ordination and collective action on regional and global monetary and financial issues.
	4. To assist member states settle, initially intra-regional balance of payments deficits, and eventually global balance of payments deficits.

B. FUNCTIONS

The strong similarity between the objectives of the Centre and that of the AfMF in its initial stages is also brought clearly by a comparison of the functions of the Centre and those proposed for an AfMF as shown below:

FUNCTIONS OF THE ACMS	FUNCTIONS OF THE AfMF
1. Study on a continuous basis monetary problems of African countries and the impact of international monetary developments on African economies with a view to enabling African countries promptly to formulate their own proposals on a regional basis and to ensure that the international monetary system does not work against the interest of African countries.	1. To follow international economic research, particularly on Africa, and provide counterpart publications consisting of commentary, applied research methods, literature surveys and specialized analytical work.
2. Promote better understanding of monetary and banking policy in African countries.	2. To undertake country-focused research studies and surveys on a regular basis in order to promote and encourage monetary and financial stability, sustained growth and co-operation among member states.
3. Provide individual African countries with a source of independent and impartial advice on monetary matters	3. To participate and assist in the economic reforms of member states when called upon. To advise in the drawing up of short, medium and long term programmes to ameliorate balance of payments disequilibria in a manner consistent with promoting monetary and financial stability in the member states.
4. Ensure by means of publications the dissemination to members of the Association of monetary and banking information of international and regional interest.	4. To provide members with up-to-date information on capital markets and available resources of credit for balance of payment financing including bilateral and multilateral sources. Provide technical assistance in the analysis of capital markets and in drawing up collateral/guarantee schemes for needful member states.

FUNCTIONS OF THE ACMS	FUNCTIONS OF THE AfMF
5. Undertake basic research in the monetary and banking fields.	5. To provide high-level training for member states in managerial, analytical, and policy-making capabilities in the areas of commercial policy, fiscal policy and monetary policy as may be determined by member states. In addition to organize international symposia of experts in the African economy.
6. Enhance the professional standard of the personnel of African central banks by organizing training courses and seminars.	6. To provide the analytical back-up facilities at all times necessary for member states to hold meetings aimed at developing Africa's common positions in international negotiations on monetary and financial issues.
7. Provide secretariat functions for the Association.	7. To explore channels for enhancing resource availability and on-lending AfMF members. This function has two complementary aspects: the mobilization of resources and ability to provide guarantees and/or collateral to member states wishing to borrow from third parties. Resources could be lent and guarantees provided for short, medium and long-term positions.
8. Discharge any other functions that the Association may entrust to it	8. To act as a depository and manager of any extraordinary funds entrusted to it by the member states, non-member states, or any international entities in and outside Africa, provided that such deposits and management are consistent with the constitution of the AfMF.
	9. To perform such other functions as may from time to time be assigned.

All the functions of the African Centre for Monetary Studies can find counterpart expressions in seven of the nine functions of the proposed African Monetary Fund. Only functions (7) and (8) of the AfMF connected with financing and management of funds for member countries, are not meant to be performed by the Centre.

Despite the close similarity between the functions of the Centre and those proposed for an AfMF, the Centre's functions are currently performed on a very small scale. The Centre can only be efficient as an AfMF if only it is strengthened very much beyond its current situation as explained elsewhere in this section.

C. STRATEGIES AND OPERATIONAL MECHANISMS

At its twenty-third meeting, the Governing Council of the African Centre for Monetary Studies discussed the strategies required to achieve the objectives of the Centre. Following an exchange of views, Governors agreed, among other decisions, as follows:

1. In performing its functions, the Centre must exercise prudence in the management of its resources including the adoption of cost-reducing measures and the appropriate placement of its funds.

2. Where a study would involve heavy financial costs that could not be supported by its budget, Governors could permit the Centre to seek additional funding from other institutions. However, such requests for extra funds would be examined and approved by Governors.

3. The Centre's research and training programmes must identify current African economic problems and policy issues and respond promptly.

4. The Centre can continue with pure research. However, the Centre's research must not duplicate the general and theoretical research undertaken at various African universities and research institutes. Rather, the Centre should study policy-related and current issues. Even so, the Centre is not required to undertake all research from scratch, it could collect and disseminate research findings of member central banks and other research economists.

5. In addition to pure research, the Centre should provide advisory services to governors on topical issues. Such advisory services should include position papers, and recommendations as well as forecasts of major trends in economic situations in both developed and developing countries. This would strengthen the ability of governors in policy formulation and discussions in various fora.

6. The Centre should take an inventory of training opportunities in member central banks in order to establish gaps that need to be filled and to avoid duplication. The Centre should also expand the possibilities of placing staff of member central banks in training courses and on-the-job training opportunities available at other member central banks so as to multiply the opportunities for training. Governors also agreed that the Centre's seminars should concentrate on topical issues and continue to draw also on guest lecturers from member central banks in order to reduce costs.

The above views expressed by Governors suggest that while the Centre was established with a view to providing significant contributions to policy formulation in African countries, the continent-wide austerity, which has also affected the budget of the Centre, has necessitated a narrowing down of the scale at which the Centre can perform its functions. To ameliorate the Centre's budgetary difficulties, Governors further agreed on a form of user-charges which required additional costs related to any technical assistance missions to countries to be borne by the member countries themselves. Furthermore, Governors considered ways of drawing on some external financial sources to support the Centre's research and training capacities.

These budgetary difficulties of the Centre appear to suggest also that it would be prudent for any resources that African governments would wish to commit for the establishment of an African Monetary Fund to be used to strengthen the African Centre for Monetary Studies. They also suggest that the operational mechanisms of the proposed African Monetary Fund should be established in phases according both to the priorities that might be attached to the various proposed functions and the possibilities of making the required financial contributions. Such a phased approach to the establishment of the AfMF has been suggested in chapter 2 above.

3. ORGANIZATIONAL STRUCTURES

STRUCTURE OF THE ACB	STRUCTURE OF THE AfMF
Assembly of Governors of the ACB (with subsidiary Committees)	Board of Governors (and consultative Committees)
Governing Council	Board of Executive Directors
Director General	Managing Director
The Secretariat:	The Secretariat:
(a) Research	(a) Policy, Research and Training Department
(b) Training Department	(b) Technical Co-operation Department
(c) Budget and Finance Department	(c) General Resources Department
(d) Administration Unit	(d) Administration Department
	(e) Legal Office

The organs of the Centre have also their counterparts in those proposed for an African Monetary Fund but the similarity here is not complete.

Whereas the Assembly of Governors of the Centre is made up of the Governors of the Association of African Central Banks, the Board of Governors of the AMF may be composed of Ministries of Finance and Central Bank Governors.

The Assembly of Governors of the AACB and the Executive Committee to become Consultative Committees in the structure of the AMF. The Board of Executive Directors of the AMF may be composed as in the case of the Governing Council of the Centre, and the Executive Directors and their Alternates may also be Central Bank Governors. However, the constituencies for election and the voting power may differ. Under the statutes of the Centre, two members from each of four subregions are elected by subregional committees. In addition, one member in whose country the Centre is established is represented on the Governing Council but without the right to vote. The constituencies and voting structure of the AMF may, however, copy those of the African Development Bank. Also, whereas the Chairman of the Centre's Governing Council is elected from among the Governors, the Chairman of the Board of Executive Directors will be the Managing Director of the AMF.

The Director General of the Centre is appointed by the Assembly of Governors upon the recommendation of the Governing Council. However, the Managing Director of the AMF may be appointed directly by the Board of Governors. The Managing Director would be Chairman of the Board of Executive Directors, as explained above, and Chief Executive of the AMF.

The Secretariat of the Fund would consist of four departments compared to the Centre's three departments. However, the current core activities of the Centre may collapse into those of one department of the AMF i.e. the Policy, Research and Training Department. The Centre now hardly undertakes technical co-operation activities except jointly with other African institutions. Even so, current budgetary difficulties of the Centre now constrain the participation of the Centre in joint studies and discussions with other African organizations. Direct technical co-operation with member countries has been included as part of the Centre's research strategy but none has yet been undertaken due to lack of funds. So far the Centre's input in member countries' policy formulation is only directly derived from the research output and publications as well as training programmes organized by the Centre.

E. CONCLUSIONS AND RECOMMENDATIONS

The comparisons so far indicate that the Centre can easily be transformed to become the nucleus of the proposed African Monetary Fund. Such transformation is relevant and advisable for two reasons. First, in view of the similarity of the objectives, functions and desired strategies of the Centre and those of the proposed African Monetary Fund, the creation of the latter would mostly duplicate the former. Such a duplication is a luxury that cannot be justified by the present economic situation in most African countries.

Second, it would be more useful for African governments to take advantage of the existence of the Centre and build on its experience and contacts rather than create a new institution that needs to start afresh. Over the years African countries have sacrificed scarce resources to build the African Centre for Monetary Studies. The experience gained so far by the staff constitute useful human resource investment that would enable the AfMF to take off quickly. A quick take-off by an African Monetary Fund in the areas of research and training, in policy formulation, is essential given the critical economic situation in most African countries and the fact that very few of them have the required infrastructure for policy analysis.

The limited impact the African Centre for Monetary Studies has had so far is because budgetary difficulties have compelled member central banks to narrow down its activities and scale down the extent to which its functions are to be carried out. If African governments would wish that an institution should be created on a large scale, to perform the functions identified for the Centre then it would be more prudent to strengthen the Centre to carry out these functions initially.

Therefore, the ongoing discussions on the AfMF would be useful in examining how the Centre may be strengthened to achieve the objectives of an AfMF. The Centre currently has a senior staff strength of 19, including the Director General and his Deputy. The economists who implement the core of the Centre's programmes are eight including the Director of Training, Director of research and Deputy Director of research. In addition to the limited staff, the budget of the Centre about $ 1½ million per year, leaves very little after payment of salaries and other recurrent expenditures. Consequently, the Centre hardly undertakes travel and field research which would be essential for an African Monetary Fund.

If it is proposed that initially the Centre should undertake the functions of an AfMF the Department of Policy, Research and Training may be created. This may be easily done using the current staff of the Centre. The Department of Technical Co-operation could also be created initially or after only a few years. There would, of course, be need also for an Administration Department. However, the Legal Office may be equipped to perform some of the limited functions of the General Resources Department for several years, especially since the Fund would not undertake direct balance of payments financing initially.